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Discount Store News®

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Wal-Mart Hypermarkets To Test Fast Lube Centers

BENTONVILLE, Ark. — Wal-Mart will begin testing quick auto oil change and lubrication centers at its six hypermarkets now under construction or on the drawing board, industry sources said.

Details remain sketchy. "They're trying to keep it under wraps for some reason," said one vendor involved in the project. "They asked us to keep it quiet."

"They," in this case was Mike Buschlen, hypermarkets merchandiser for auto, hardware and sporting goods.

Buschlen declined to discuss Wal-Mart's new venture into the booming area of quick lube centers. Wal-Mart spokeswoman Stacy Duncan said, "It's too early, too soon, and too many competitors are looking at us."

Duncan did refute industry talk, however, that Wal-Mart also plans to test self-service gas stations at hypermarket sites. "We're not going to put in gas stations."

"Wal-Mart will offer limited automotive service at its hypermarkets," said Maggie Gilliam, a First Boston Corporation analyst who follows Wal-Mart. "But I don't know what that's going to be."

In addition to plans for quick lube centers at its hyper-

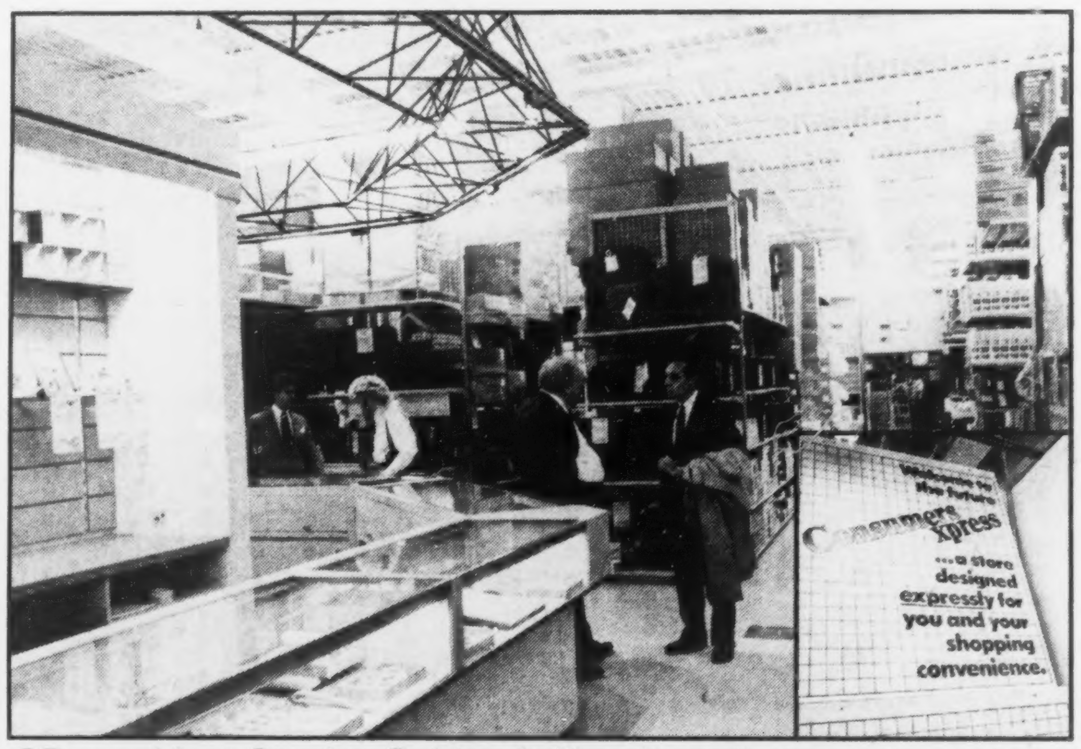
(Continued on page 61)

Consumers Prototype Adopts Warehouse Look, Racetrack

EAST BRUNSWICK, N.J. — Consumers Distributing (U.S.) unveiled a new prototype here and in Eatontown, N.J., that combines a racetrack layout and a warehouse format in an attempt to solve the cataloger's longstanding problems of rampant out-of-stocks and long delays in delivering goods to customers.

The two 12,000-square-foot stores, called Consumers Express, feature jewelry and small CE products like calculators in a salesclerk-serviced island in the center of the racetrack layout. All the other merchandise except for photo items is mass displayed on

(Continued on page 61)


Consumers Express
...a store designed expressly for you and your shopping convenience.

CD president Stanley Seiden (with raincoat) stands in center of new Consumers Express store, East Brunswick, N.J. (DSN photo)

After the Crash: Raiders Back Off; Retailers Plan Buybacks

By Richard C. Halverson
Nationwide DSN Report

For some discounters, a sliver of silver lining appears to glimmer through Black Monday's stock market crash.

News Analysis

Slumping stock prices, and an attendant disintegration of junk bond financing, has dampened the hostility of corporate raiders and given targeted retailers a chance to gird their defenses by buying back stock at bargain prices.

At least one discounter rushed to issue corporate notes as plunging stock prices depressed interest rates to what they expect will be the lowest point this year. Among these were Zayre, cataloger Best Products, off-pricer Dress Barn, and Dayton Hudson, parent of Target Stores, Mervyn's and Lechmere.

Dayton Hudson, twice the object this year of takeover attempts by the Dart Group, said it will buy back as many as 15 million of its shares, or close to 15 percent of the total outstanding after Dart called off its most recent bid.

In the wake of Black Monday, Oct. 19, the Dart Group, operators of Trak Auto and Crown Books, said it could not raise the financing needed to complete the deal. Dart, which is controlled by the Haft family of Landover, Md., also revealed it said it will lose as much as $70 million selling the 4.6 million shares of D-H it had acquired.

On Oct. 26, D-H closed at $26, less than half its $56.63 per share price of 30 days ago.

"The crash was a debacle for retailers," said Kurt Barnard, a retail consultant in New York. "Acquisitions are going to go on hold until sellers and buyers have a clearer idea of what they're worth, and stockholders get an idea of what they should get." Mark Tavel, president of Value Line Asset Management, based in New York, said portfolio managers "are moving out of junk bonds into quality."

Corporate raiders and those taking companies private through leveraged buyouts often issue junk bonds. They then expect to pay off the bonds with either the proceeds from selling assets of the acquired company or with operating revenues.

The Thompson family expected to issue $1.5 billion in junk bonds as part of its plan to take private the Southland Corporation, best known for its 7-Eleven convenience stores. And then it planned to sell various assets, including its Chief Auto Parts specialty discount chain.

Last month, Southland distributed a prospectus to potential qualified purchasers of Chief Auto, once estimated to be worth $200 million, as the first stage of selling to the highest bidder.

A corporate development executive for a major corporation told *DSN* that the Chief Auto prospectus is not generating a lot of enthusiasm.

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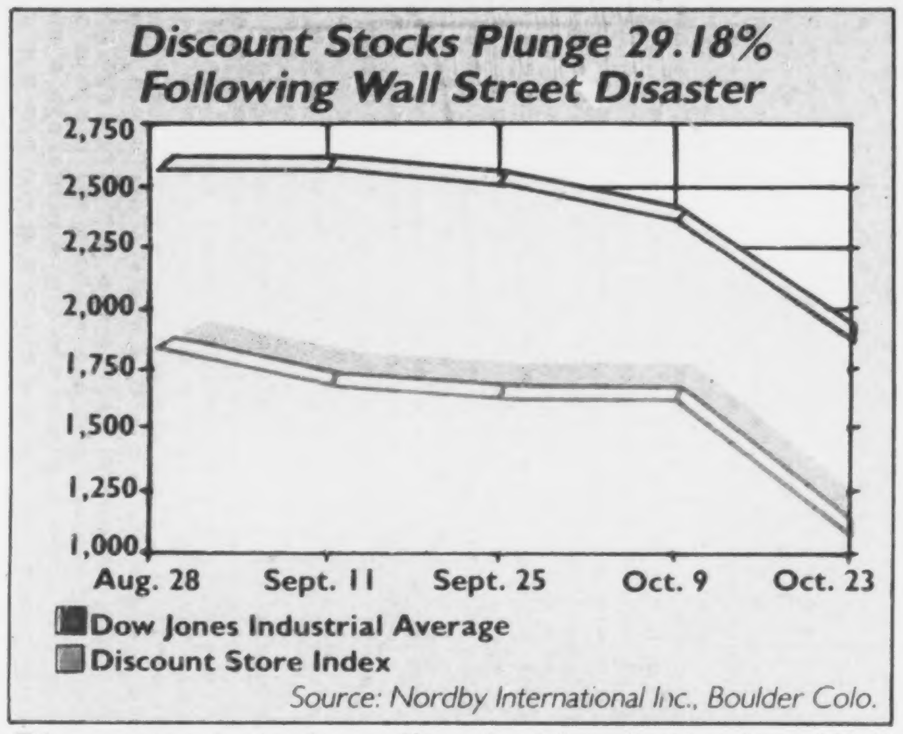

Source: Nordby International Inc., Boulder Colo.

Discounters' stocks suffered a bloodbath when Wall Street plunged to earth Black Monday, see page 53.

First-of-its-Kind Program Launched

New Gold Circle Visa Offers $ Bonus

By Donald Longo

COLUMBUS, Ohio — Gold Circle, the nearly $1 billion discount store division of Federated Department Stores, last month introduced a new credit card program that awards shoppers with bonus coupons for the purchase of merchandise in its stores.

The new Gold Circle program was instituted just five days before Zayre Stores, the 375-store discount chain based in Framingham, Mass., introduced its own points for purchase awards program (see *DSN*, Oct. 26, page 1).

Gold Circle's Shoppers Bonus Visa Card, issued and administered by Fifth Third Bank of Cincinnati, differs from standard Visa cards in that cardholders receive one bonus point for every dollar purchase made with the card at Gold Circle stores. The Worthington, Ohio-based chain's Richway stores are also participating.

Each time the cardholder accumulates 250 bonus points, a $10 Shoppers Bonus coupon will be issued automatically by the bank to the cardholder. The coupon is worth $10 off a purchase at Gold Circle. Monthly statements issued by the bank will advise cardholders of the number of bonus points that have accumulated.

"A new concept in credit card processing, the co-branded Shoppers Bonus Visa card

(Continued on page 61)

Crazy Eddie's Fate Now In Hands of New Board

By Josephine Fiamingo

EDISON, N.J. — Elias Zinn has finally won his five-month-long battle to wrest control of Crazy Eddie from founder Eddie Antar. Claiming a prolonged proxy battle would do more harm to the chain's financial status, the electronics specialty retailer decided not to oppose a slate of new board members, nominated by the Zinn-led Committee to Restore Stockholder Value, at the chain's Nov. 6 shareholders meeting.

Despite his apparent victory, Zinn, chairman of Houston-based electronics wholesaler Entertainment Marketing, may have to do some fancy footwork to return the 42-

(Continued on page 62)

Chain
With

enile Products
led by New Parents

Truck Accessories
Tow Spring Auto

0024037C DS
MS JEANNE LONG
CONGRESSIONAL INFOR SVC 1FP
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

MARKETWATCH

GTE Tests Interactive Teleshopping

STAMFORD, Conn. — GTE began a full scale test of its Main Street interactive cable TV teleshopping service Oct. 19 on the Continental Cablevision system in Newton, Mass., a Boston suburb. GTE plans to shortly expand the test, which includes the actual purchase of goods and services from about a dozen companies, to the Warner Cable system in Boston, reaching a minimum of 500 homes.

McDade Closes 8-Showroom Biz

CHICAGO — Cataloger McDade & Co., which emerged from bankruptcy five months ago, will close its eight-showroom business after holding a liquidation sale during Christmas. The 29-year-old privately held chain's lack of capital to stock its suburban Chicago showrooms and vendors' unwillingness to provide enough credit for the key fourth quarter buying period were cited as reasons for the move. McDade has had its core housewares/home furnishing, consumer electronics and photo business battered by such competitors as discounters K mart and Venture, cataloger Service Merchandise and specialty retailers Highland Superstores and Fretters.

TSS-Seedman Deal Closes

NEW YORK — Resource Holdings Inc. took possession of TSS-Seedman, the 32-unit Brooklyn, N.Y.-based retailer, on Oct. 27.

Sherman Named Regina Board Member

RAHWAY, N.J. — Malcolm Sherman, former chairman of Zayre Stores, has been named a member of the board of directors of the Regina Company, the home products manufacturer. Sherman replaces Chester McNutt, who retired. Sherman resigned from Zayre Stores this summer. He is active in the presidential campaign of Massachussetts Gov. Michael Dukakis, as well as several Boston-area non-profit organizations.

Guinan Nabs Consolidated Post

COLUMBUS, Ohio — Former Caldor chairman James M. Guinan will join Consolidated Stores on Nov. 16 as senior executive vice president, and president and ceo of Consolidated's retail division. Guinan replaces Sol Norflus, who resigned on Oct. 26. A 30-year retail veteran, Guinan has served as president and coo of Bloomingdale's; president of Milwaukee Boston Stores; and president and later chairman and ceo of Gold Circle. Consolidated operates 287 Odd-Lots and Big Lots stores in 11 states.

CD Parent to Buy Remaining Shares

TORONTO — Provigo Inc., parent of Consumer Distributing (Canada), has made a $120 million (Canadian) buyout offer for the 19 million CD shares it doesn't own, with the tender offer due to expire at presstime. Provigo, a Montreal-based food distributor, will pay $5.50 a share, subject to receiving at least 50 percent of the Class A stock and 63 percent of the Subordinate Voting Class B stock it doesn't own. Provigo holds nine million CD shares overall.

K mart to Accept Sears Discover Card

TROY, Mich. — K mart will begin accepting the Sears Discover Card at all locations on Nov. 15. The discounter decided to add the card six months ago after a successful test of the credit card in 73 Georgia K mart stores in fall 1986, said Barbara Palazzolo, director of marketing and product publicity.

Haimsohn Named Chairman of Dimes

DENVER — PACE Membership Warehouse chairman and president Henry Haimsohn has been named chairman of the executive committee of the Greater Colorado Chapter of the March of Dimes.

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New Teleshop Show Sells Auto Parts

NASHVILLE, Tenn. — Specialty auto parts, such as the Kooltron plug-in refrigerator ($129.95) for pickup trucks and vans, have joined the burgeoning list of goods sold on television shopping programs.

Called the Auto Specialty Magazine, an auto parts teleshopping program made its debut Oct. 4 on cable television's Nashville Network. It is one of more than 50 teleshopping programs on the air.

Organizer of the show is Joe St. Lawrence, owner of Best Brands Auto and Truck Parts, which is a prime sponsor of the program. In effect, St. Lawrence's company becomes the order fulfillment house for goods the show offers.

The program airs on Sunday, which the Nashville Network otherwise devotes to sports programming. Its three, half-hour programs, broadcast at 10 a.m., 3:30 p.m. and 7:30 p.m., are sandwiched between programs of stock car, motorcycle and drag racing, said Glenn Mitchel, vice president of Burroughs & Associates, the show's producer.

Each show features 15 products and is broken into three segments, Mitchel said.

The first is a show scene from the Auto Show held in Chicago last August. Another is a new products preview, and the third is a Lookin' Good segment featuring appearance accessories, such as louvers and front end bras. One of three hosts is Alan Westbrook, a hard parts expert who explains how to make repairs in home garages.

A catalog offering 15,000 specialty items will be available to viewers, Mitchel said.

The first items offered included a Warn Manufacturing winch and "enforcer" steel bumper for $800. Mitchel said the show sold three of the winch and bumper combinations the first day.

"I was really surprised."

The show fills a niche because many of the hard-to-find items offered get only "spotty distribution" in specialty shops, Mitchel said. Many items, such as Crane high performance camshafts, have to be special ordered and take up to four days for delivery, Mitchel said. Auto Specialty Magazine can ship within 36 hours, either by drop shipment direct from the manufacturer or direct shipment from a performance warehouse, he said.

In some cases, consumers get a "sweet price" on drop shipments and pay far less than if they ordered from a catalog, he added. However, customers pay the freight on all shipments.

Auto Specialty Magazine warehouses only a few parts, such as the spark plugs offered free to motorists who bought a set of Autolite spark plug wires. That offer was "a real smash," Mitchel said.

Family Dollar Names New President

MATTHEWS, N.C. — Family Dollar Discount Stores, a 1,281-unit chain of discount stores based here, announced that Ralph D. Dillon was named president and chief operating officer effective Oct. 26.

Dillon, 47, also will be a member of the company's board of directors. He replaces Lewis E. Levine who resigned in September.

Dillon was most recently president and chief operating officer at CoastAmerica Corp., a Denver-based company operating more than 1,000 Coast to Coast hardware stores. Before that, he was president and chief executive office of Bowater Home Centers, a warehouse home center company he started in 1982.

Prior to creating the Bowater stores, Dillon spent 10 years with the Wickes Lumber Division of Wickes Companies.

Leon Levine, chairman and chief executive officer of Family Dollar, said in published remarks that Dillon's 15 years of retailing experience will help the company consummate its ambitious expansion plans for the current fiscal year: 165 new stores including its first Wisconsin unit.

Family Dollar reported sales for fiscal 1987, ended Aug. 31., of $56.34 million, up 15 percent from fiscal 1986. Net income, however, fell 19 percent below the 1986 total to $30.51 million, and earnings per share decreased to 86 cents compared to $1.06 during the last fiscal year.

Levine attributed the disappointing earnings to a slide in comparable store sales, which increased less than 0.5 percent.

Last year, Family Dollar added 165 stores to the chain, including its first store in Kansas, and completed the final phase of the expansion and automation of its distribution center in Matthews, now containing 775,000 square feet.

During third quarter of last year, Family Dollar implemented an "everyday low price" program. The chain also unveiled a new store layout.

Pay Less Buys 24 Osco Drug Stores

WILSONVILLE, Ore. — K mart's super drug chain Pay Less NW strengthened its presence in the Pacific Northwest with the acquisition of 24 Osco Drug stores for an undisclosed amount.

The acquisition includes store personnel and comprises 10 stores in Idaho, one in Oregon, one in Northern California, and 10 in Washington—including five in Spokane, a new market for Pay Less.

Pay Less acquired all of Chicago-based Osco's merchandise, except private label products, and took possession of the 16,000-square-foot to 41,000-square-foot stores in mid-October. As store signs are changed to the Pay Less name within the next month, the K mart division said it will gradually change the product mix to its own.

While the core drug store products will remain similar to Osco's, Pay Less' executive vice president Timothy McAlear said there will be a shift toward a greater selection of sporting goods, auto products and hardware.

The deal increased Pay Less' store count to 248 while reducing Osco to 646 stores. In recent months, Osco has been realigning its markets, having swapped stores with another drug chain, Walnut Creek, Calif.-based Longs, in June.

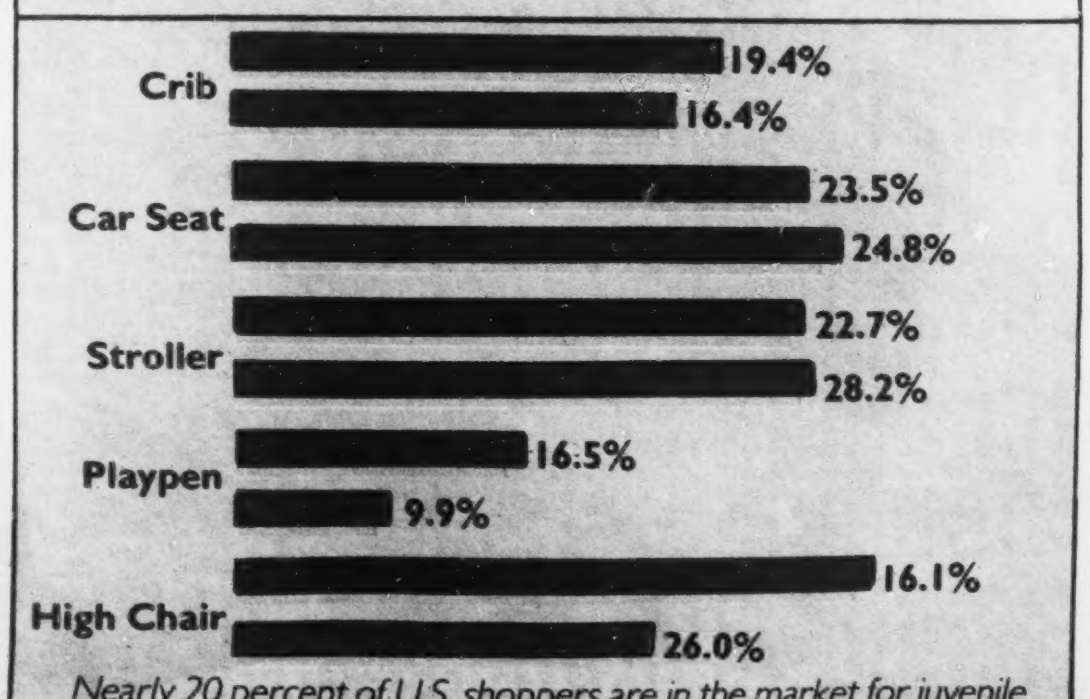
Pay Less had been considering several acquisition possibilities, and the Osco agreement was "a good deal for both of us," McAlear said. The inclusion of the Spokane market was an added bonus. "It's tough to go into a market like Spokane and find locations."

In Spokane, competitors include Thrifty, Drug Fair and Pay 'n Save, Fred Meyer, Shopko and its parent K mart.

Consumers Will Turn to Discount Stores For Car Seats, Strollers and High Chairs

■ Percent of respondents "in the market"* for juvenile products who plan to purchase a specific product:

■ Percent "in the market"* for juvenile products who would buy a specific product at a discount store:



Nearly 20 percent of U.S. shoppers are in the market for juvenile products, according to a new DSN survey, see page 33.

*Either bought in past year or plan to purchase in coming year

Source: Leo J. Shapiro & Associates/Discount Store News, November 1987

Home Products

New Parents Fuel High End in Juvenile Products

By Peter Hisey
Nationwide DSN Report

Nearly 20 percent of American shoppers are "in the market" for juvenile products, but less than one-quarter of them, on average, would shop a discount store for cribs, car seats, strollers, playpens or high chairs.

According to a new consumer attitude study conducted during August and September by Leo J. Shapiro & Associates, Chicago, for *DSN*, 11 percent of U.S. households report there is a chance that during the coming year they will be purchasing some products for babies and toddlers.

The nationally projectable study found that 19 percent of U.S. households are "in the market" for products for babies and toddlers, i.e., they are either planning to make such a purchase or have made a purchase during the past year.

However, among the 11 percent of U.S. households that actually will purchase juvenile products like cribs, car seats, playpens or strollers, discount stores mostly performed better as a source for these products than with the population as a whole.

For instance, only about 11 percent of total respondents "in the market" (have purchased or will purchase) chose discount stores as a source for cribs, as opposed to over 16 percent of those actually in the market for a crib. About 22 percent overall thought of discount stores for high chairs vs. 26 percent of the immediately interested.

Playpens, for some reason, reversed the trend. While about 20 percent of all respondents would purchase a playpen in a discount store, less than 10 percent of those most likely to actually buy one would look at juvenile product departments in discount stores.

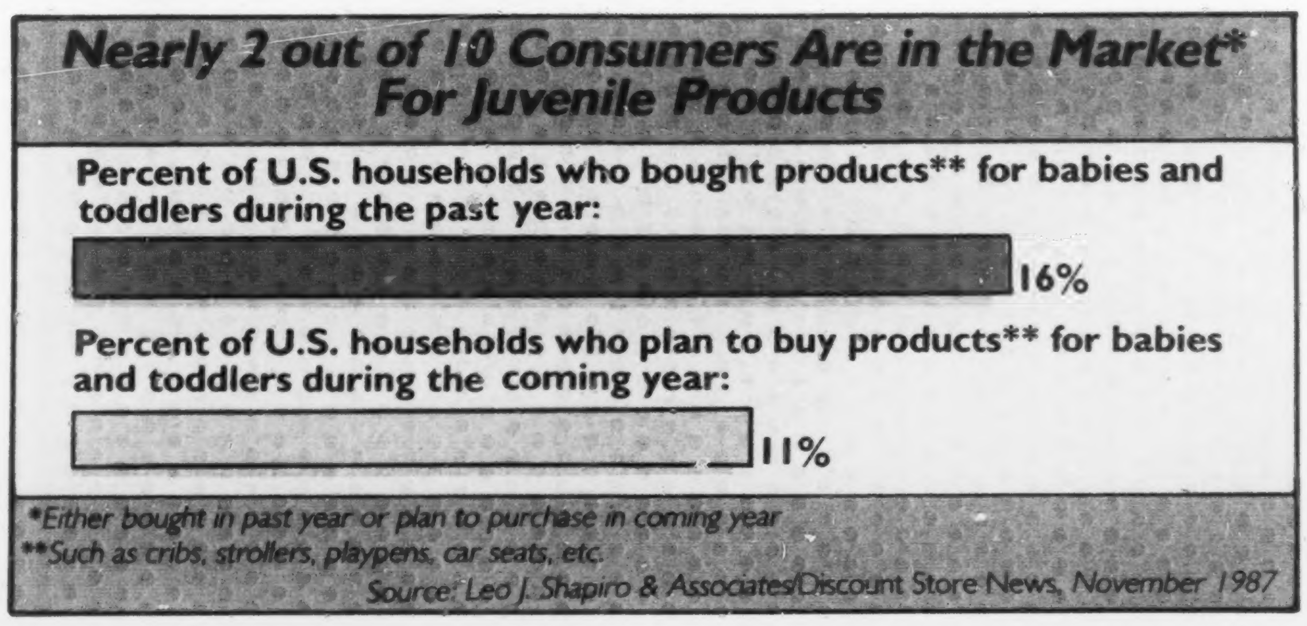
Sears, which often outperformed discount stores as a group with the general population, did not fare nearly as well with consumers currently planning to buy. For instance, in the stroller and high chair markets, Sears' share fell from nearly 20 percent to less than 10 percent among active shoppers.

On the other hand, those in the market for playpens clearly favored Sears over discount, department and specialty stores, with a slightly higher percentage of support than among the respondent universe.

The most dramatic shift in support, however, was among specialty stores, which garnered over 10 percent ratings in every category among all respondents, but no higher than 5 percent (and as low as 1 percent) among those actually considering a purchase.

For example, in the crib category, specialty stores finished a strong second to national merchandisers (which includes Sears) among the general population, with more than one in five naming a specialty store. However, only one in 20 actually considering buying a crib indicated that they would shop a specialty store.

(Continued on page 35)



*Either bought in past year or plan to purchase in coming year
**Such as cribs, strollers, playpens, car seats, etc.
Source: Leo J. Shapiro & Associates/Discount Store News, November 1987

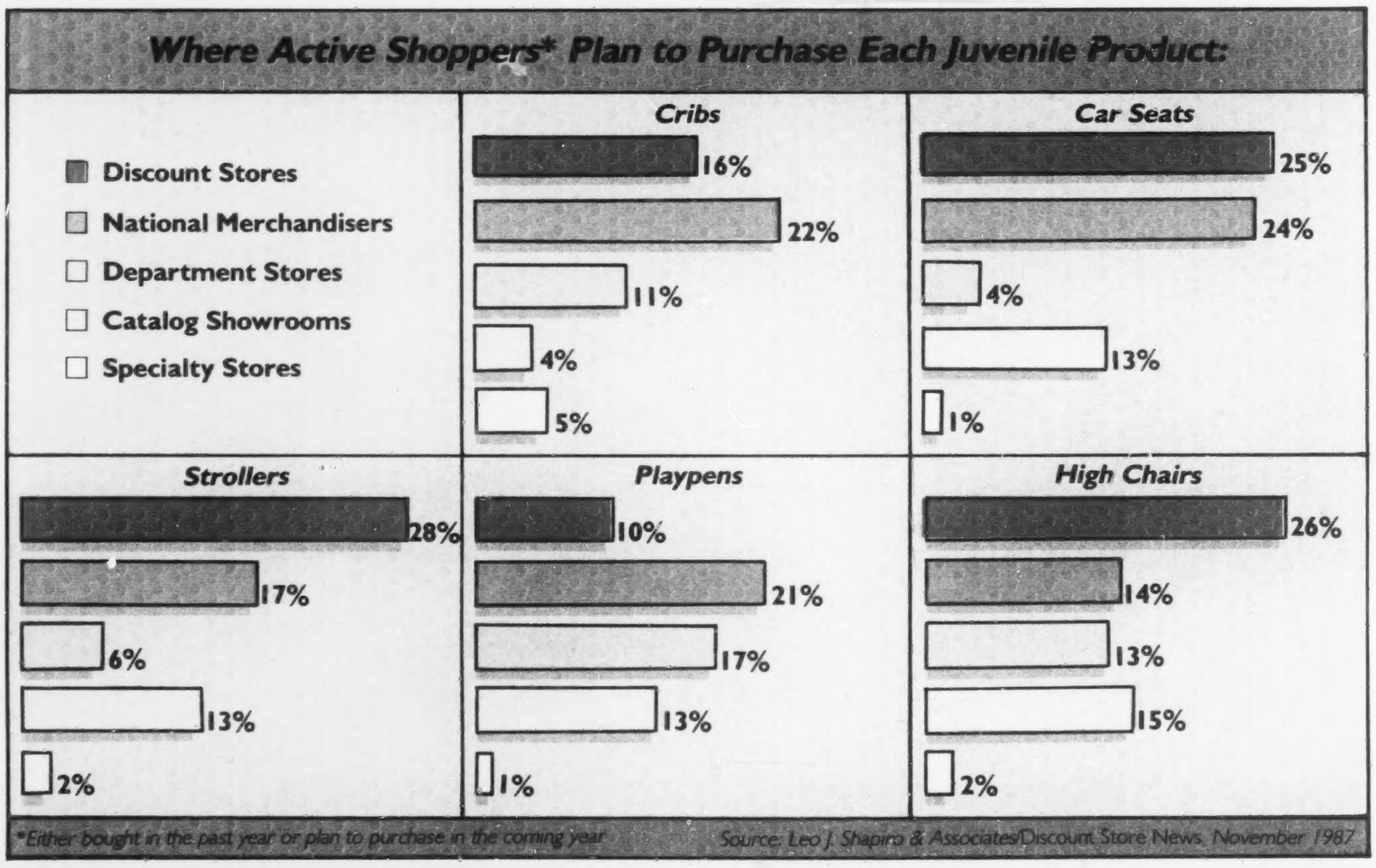
Larger Families Shop Discounters for Kids

Nationwide DSN Report

A new *DSN*/Leo J. Shapiro & Associates study of juvenile product consumers revealed that these consumers tended to be younger and slightly wealthier than the population as a whole. Demographically, juvenile product consumers varied considerably from the population as a whole, and discount and non-discount factions of that group had certain identifying characteristics.

Predictably, those in the market tended to be younger (37.5 years vs. 43.9 years), about as well educated as, and slightly wealthier ($30,100 per year vs. $29,800 per year) than the population as a whole. They basically fit the national employment profile, although there were greater numbers of technical and clerical workers among those in the market. And although they had slightly fewer children than the population at large, their children tended to be younger, which corresponds to their relative youth and need for these products.

(Continued on page 34)



*Either bought in the past year or plan to purchase in the coming year

Source: Leo J. Shapiro & Associates/Discount Store News, November 1987

MARKETWATCH

CHICAGO — The **National Housewares Manufacturers Association** (NHMA) workshop, focusing on Electronic Data Interchange (EDI) technology, attracted over 50 association members last month with a panel of four retail industry leaders. Panelists consisted of: Gary Sweetapple, K mart director of corporate systems development; George Klima, Super Valu Stores director of accounting systems and procedures; R. Vincent Conant, Carter Hawley Hale Stores president and chief executive officer; and Blake Bolton, Cotter & Co. department manager of inventory control. The workshop, entitled, "How to Meet Your Customers' EDI Needs," provided information on computer-to-computer merchandise re-ordering systems. In addition to the panel discussion, Cyrus Wilson, president of Management Horizons, the Ohio-based retail consulting firm, spoke on the merits of EDI and William Plumb, president of Ordernet Services division of Sterling Software, demonstrated several approaches to EDI that were appropriate for vendors of varying size.

* * *

HICKSVILLE, N.Y. — **Newmark & Lewis**, a metro New York 46-store CE chain, reported a 14 percent jump in September sales to $17.7 million from $15.5 million in September 1986. Comparable store sales, however, declined 1 percent during this period. For the eight months ended Sept. 30, sales climbed 24 percent to $154.7 million from $124.7 million over last year and comparable store sales gained 6 percent.

* * *

MINNEAPOLIS — **Best Buy**, a Midwestern chain of 37 CE superstores, expanded further into the St. Louis market with new superstore openings in St. Charles and Webster Groves, Mo. The new stores—a 28,800-square-foot superstore in St. Charles and a 26,000-square-foot outlet in Webster Groves—each contain between 20,000 square feet and 24,000 square feet of selling space. In total, the company now operates more than 627,000 square feet of retail selling space.

* * *

TAYLOR, Mich. — **Highland Superstores** reported September sales were up 8 percent to $53 million from $49.3 million last year. This increase reflects both new store sales and a decrease in comparable store sales of 14 percent. The 63-store CE chain attributed disappointing September sales to continuing adverse economic conditions in the Texas markets, as well as a softening of demand in the Midwest markets due to uncertainty related to auto labor negotiations during the month.

Larger Families Prefer Discounters for Juvenile

(Continued from page 33)

Among those in the market, demographic patterns suggest that experienced parents tend to favor discount stores, perhaps because of the hand-me-down factor or because second-time parents understand that juvenile products give new meaning to the term "planned obsolescence."

Typically, smaller households (with fewer children) favored non-discount outlets. If the experienced grandparent segment were to be separated from the childless couple segment of the small households, however, non-discount stores' superiority at this level would be enhanced.

Discount shoppers tended to have larger households, with about one-third of those shoppers in the market having five or more family members at home, vs. about one-tenth of non-discount shoppers. About half of each group had three to four occupants per household.

Discount shoppers were far more likely to have children, and they tended to have young children at home. Non-discount shoppers were about evenly split between those with and those without children, but relatively speaking, they tended to be more likely to have older children.

Family income seemed to make little difference in outlet selection, as percentages of respondents with incomes over and under $20,000 were relatively constant among both discount and non-discount shoppers (about 70 percent of each group makes over $20,000 a year). Median income for discount shoppers was $28,600 while non-discount consumers brought home $30,800.

Education tended to be similar, although a higher percentage of discount shoppers had graduated from college than had among the non-discount fraternity. However, non-discount buyers were more likely to work in a white collar occupation or to be unemployed (implying retired).

Discount shoppers, as might be implied by the above, were dramatically younger than non-discount buyers, with 80 percent under 45 compared to 60 percent of the non-discount buyers under that age. The mean age was 34.7 years for discount shoppers and 38.8 years for others.

Blacks, who were slightly underrepresented in the study (less than 8 percent of respondents) were slightly more likely to shop discount stores than was the population as a whole. Hispanics, on the other hand, showed a distinct preference for non-discount outlets.

Of those actively in the market for at least one of the juvenile products, 52 percent planned to use the item(s) themselves, 32 percent were looking for a gift and 5 percent said that the item(s) would be used for both purposes. Gift-givers were less likely to go to a discounter, perhaps reflecting a prestige element in their shopping decisions.

Overall, two-thirds of the population in the market for juvenile products indicated that they would shop at non-discount outlets. Regionally, discount support was strongest in the East and West North Central and East South Central regions. Discount support was lowest in New England and the South Atlantic regions.

The survey, conducted late this summer, contacted 903 "heads of households" throughout the United States, asking each if he or she planned to purchase juvenile products within the next year. Respondents were then asked if they or anyone in their household had purchased any juvenile products during the past year.

Of the 903 respondents, 176 (net, excluding duplicate affirmative answers) had done one or the other. These 176 persons were considered "in the market." They were then asked if they intended to purchase specific products within the next year, and those who answered yes were classified as "currently in the market" for that product.

Demographic Characteristics of Discount vs. Non-discount Juvenile Products Shoppers

	Discount	Non-discount
Buying for Own Use	61%	48%
Mean Number of Persons in Household	3.83	3.12
Mean Number of Children in Household	2.03	1.66
Planning to Have More Children	46%	35%
Percent Employed:	76%	69%
Professional	6	17
Technical	5	8
Clerical	8	7
Sales	5	4
Craftsmen	12	10
Managers	18	14
Mean Household Income (000s)	$28.6	$30.8
College Grad	20%	12%
Mean Age	34.7	38.8
White	89%	90%
Black	10%	5%

Source: Leo J. Shapiro & Associates/Discount Store News, November 1987

CANNON KITCHEN FASHIONS
COOK WITH HEART
CRAFTED WITH PRIDE IN U.S.A.
TM

New Parents Fuel High-End Demand in Juvenile Products

(Continued from page 33)

Full-line department stores performed at about even levels within the two groups, but toy stores lost considerable ground with active shoppers. Catalog showrooms, barely recognized in all the results, made significant gains among those most likely to buy, often with doubled ratings. For instance, while only about 7 percent of all respondents would consider a catalog showroom as a source for a high chair, over 15 percent of those actually in the market for one chose catalogers as their most likely source.

Consumers proved to be well-versed in the retail cost of various items, with those in the market predictably a bit less inclined to spend freely. When asked what they expected to spend on each of the five products, active shoppers proved to be very tight with their money in all areas except one—cribs.

This Best Products showroom in Minneapolis, Minn., makes a powerful statement with juvenile products highly merchandised near the entrance of the store. (DSN photo)

In that category, about one-third of those planning to buy a crib expected to pay over $250, the highest price point included in the survey. A little less than 20 percent of all respondents expected to pay that much. Nearly half of those in the market (including the ones just mentioned) expected to pay over $200 vs. less than one-third of all respondents.

Car seats had an atypical upper-end bulge in the response rate of active shoppers. Over 10 percent of respondents expected to pay between $80 and $89.99, while a significant majority expected to pay less than $60. Active stroller shoppers split into those who expected to pay $40 or less (about two of five) and a strong upper-end minority (a little over 10 percent) who planned on spending between $100 and $149.99.

Playpen shoppers clustered in the middle ground, with nearly 60 percent envisioning expenditures between $40 and $69.99. Nearly 40 percent of buyers expected to pay less than $40 for a high chair.

Nearly twice as many probable buyers said they would shop traditional retailers as said they would choose discounters as their likely source. To no one's surprise, the non-discount segment generally expected to pay more for each product than those who would shop discount stores. For instance, more than three of five discount shoppers planned to spend less than $59.99 for a car seat while over half of active shoppers who would not shop a discount store expected to pay between $50 and $89.99.

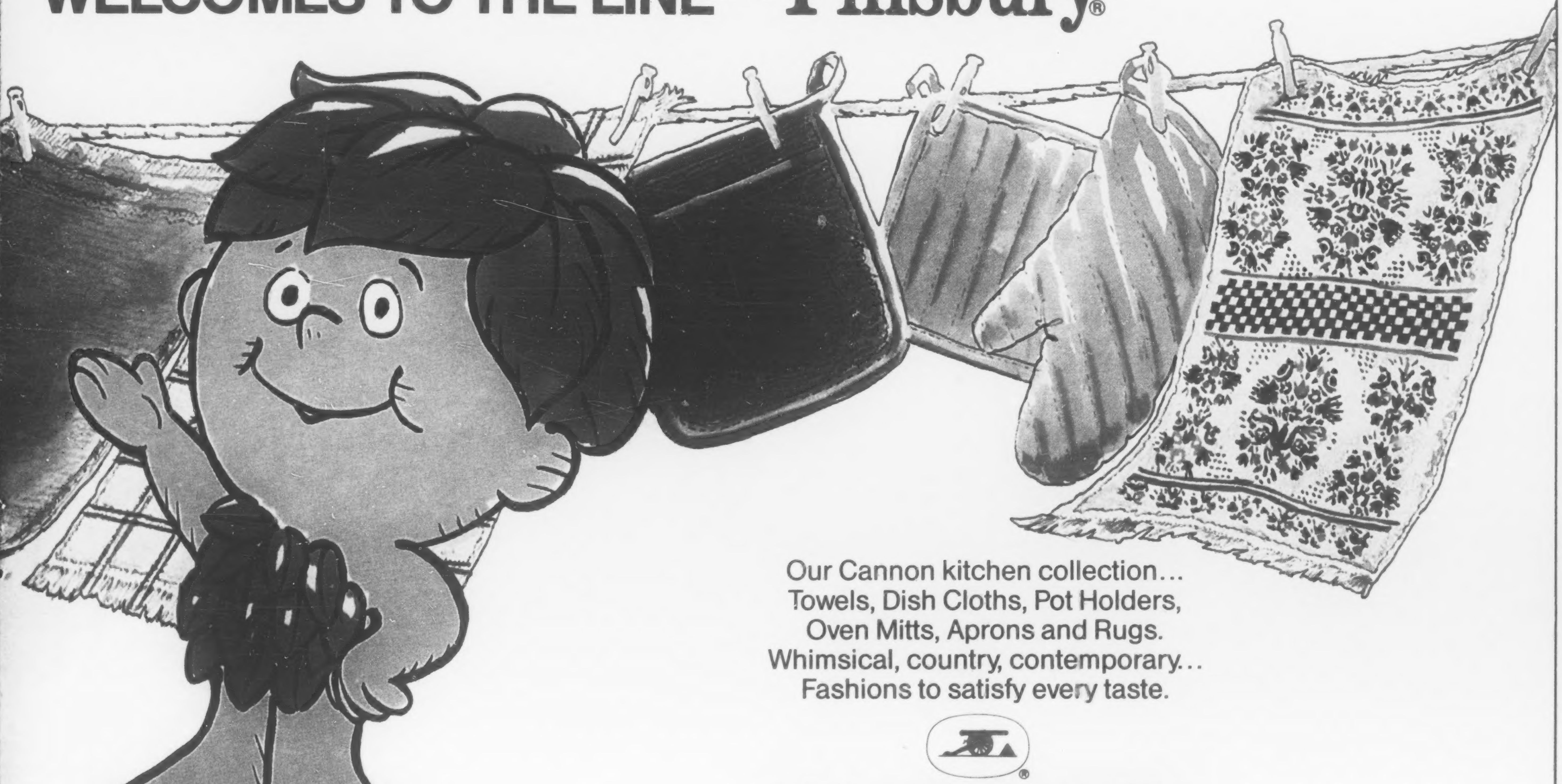
Active discount shoppers expected to pay less than $174.99 for a crib (by an overwhelming margin) while over a third of non-discount patrons planned on spending $200 or more. Another 40 percent of those consumers expected to pay an upper middle range of $100 to $174.99. By contrast, an identical 40 percent of discount shoppers expected to pay less than $100.

The results in the stroller category were even more vivid, as nearly 20 percent of non-discount shoppers said they would pay $100 and up for a stroller, while nearly half of discount shoppers would pay no more than $49.99. Overall, over half of non-discount shoppers expected to pay $50 or more, indicating that upper-end prestige products, like Aprica's line, have made a significant dent in consumer spending patterns.

Of those in the market for juvenile products, over half buy diapers in grocery stores, with about one in five buying them in discount stores. Drug stores were the third most popular outlet.

Pampers, with about half of responses, was easily the most popular brand with target consumers. Huggies, which were named by about 20 percent of respondents, were the second most popular, with Luvs, at 15 percent rounding out the top three. Kleenex and Revco store brand combined for less than 5 percent between them.

WELCOMES TO THE LINE--Pillsbury®



Our Cannon kitchen collection...
Towels, Dish Cloths, Pot Holders,
Oven Mitts, Aprons and Rugs.
Whimsical, country, contemporary...
Fashions to satisfy every taste.

CANNON®
ENTERING OUR SECOND CENTURY

TM

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The Fate of Crazy Eddie Is Now in the Hands of New Board

(Continued from page 1)

store CE chain back to profitability in the tough metro New York market.

Perhaps the most intensely competitive consumer electronics market in the country, CE retailers have likened competing in New York to fighting with "bare fists." Even the nation's leading CE chain, Circuit City, was forced to fold its tents in the New York market in February 1986 due to the unprofitability of its Lafayette stores.

And while Crazy Eddie was once flying high in this market, its recent troubles could make it very difficult for Zinn to reverse the trend.

Crazy Eddie reported a loss of $10.3 million on sales of $158.5 million for its first half of fiscal 1988, ended Aug. 30, compared to net income of $6.2 million on sales of $139.3 million last year.

Manhattan and New Jersey are currently the two weakest markets for the chain, said Zinn, speaking from the opening of Crazy Eddie's 42nd store in Willow Grove, a suburb of Philadelphia, on Oct. 27. Out of the chain's total stores, a little more than half are located in Manhattan (11) and New Jersey (12).

"Crazy Eddie has definitely lost an edge in the metro New York market and this is our largest concern," Zinn said. "However, we don't see any problem in the suburban areas. The stores are bigger and the operation there is running very smoothly."

Zinn said it is especially important for Crazy Eddie to bring back major brand names such as Panasonic, Sony and JVC. These vendors have abandoned business with Crazy Eddie over the last six months due to the chain's poor financial situation.

Zinn is also considering revamping Crazy Eddie's highly price-oriented strategy.

Since relying solely on price may not be enough when everyone promises to beat everyone else's price, Zinn hopes to use the zany antics of Crazy Eddie's high-profile ad spokesman, Jerry Carroll, to promote additional benefits such as customer service.

In a proxy statement issued by the Committee to Restore Stockholder Value, led by Zinn's Entertainment Marketing and the Oppenheimer-Palmieri Fund L.P., New York, the group said it would turn Crazy Eddie around by concentrating on motivating sales personnel and on reducing corporate overhead. Zinn said he hopes to excite the sales force with better compensation in the form of a commission program.

Selling, general and administrative expenses continue to take a big chunk out of profit. These costs increased to 29.4 percent of net sales for the first half of fiscal 1988, from 16.8 percent over the comparable period last year.

Zinn said he'll meet with department heads to determine where trouble areas exist.

"I am a maniac when it comes to wasting money," he said. "It will take me little time to find and isolate the cost centers that are unnecessary. Just by lowering salaries to reasonable levels, the company will save millions of dollars upfront."

While Zinn may have experience in consumer electronics and a knack for efficient money management, some industry observers are skeptical that he possesses the CE retail experience necessary to be successful in such a tough market as New York City.

Zinn countered that he was president for nine years of a then 72-store and now defunct CE chain, Houston-based Custom Hi-Fi. He resigned a year and a half before bankruptcy proceedings began.

He has been living in Manhattan and doing research in the market since September. "I have talked to every major vendor, to competitors, and Crazy Eddie store managers and salespeople," he said. "I believe I have a pretty good feel of the market."

The old Crazy Eddie leadership was unsuccessful in securing a commitment from the Zinn-Palmieri group to refrain from taking the chain private until it regains stability. Zinn said he wants to leave his options open until he gets a better picture of the firm.

Together, Zinn, Entertainment Marketing and the Oppenheimer-Palmieri Fund spent approximately $30 million to own 17 percent, or 5.2 million shares of Crazy Eddie. Based on the closing price of Crazy Eddie's stock on Oct. 26 at $2.25, the group has incurred a paper loss of $18.2 million, more than half the original investment.

After the Crash: Raiders Back Off; Retailers Plan Buybacks

(Continued from page 1)

The junk bond market "isn't real great," conceded Cecilia Norwood, Southland manager of investor relations. "We're obviously keeping a close watch on the market. We're evaluating it every day."

Norwood declined to speculate on what would happen to the LBO if the Thompson family was unable to float the $1.5 billion in junk bonds.

On July 31, the Thompsons bought 31.5 million of the 48 million Southland shares outstanding at the tender price of $77. On Oct. 26, Southland closed at $48.50, indicating a paper loss of about $900 million for the Thompson family.

Sam M. Walton, chairman of Wal-Mart, has suffered a paper loss of a similar magnitude since Black Monday, an indicated $872 million, on his family's 218 million shares of Wal-Mart.

Walton is taking a philosophical approach to the losses. "It's paper anyway," he said in a press report. "It was paper when we started, and it's paper afterward."

On network newscasts following Black Monday, Walton expressed more concern for the small investor than for himself, the richest man in America with $5.8 billion worth of Wal-Mart stock, even at today's level.

Unavailable for comment was Edward DeBartolo, a real estate developer from Youngstown, Ohio, and owner of the NFL's San Francisco 49ers, who prior to Black Monday, announced intentions to acquire Zayre, Framingham, Mass.

Zayre stock plunged from $31 on Oct. 13 to $15.63 on Black Monday. As of Oct. 26, Zayre stock had recovered to $17.50. Zayre responded to the crash by announcing plans to increase authorization to buy 5 million shares from the 3 million authorized on Oct. 20, 1986. Prior to the crash, Zayre had repurchased only 1 million under last year's program. But the day after the crash, Zayre bought 1,394,700 more shares, said treasurer Steve Wishner, out of 56.7 million outstanding.

Moreover, Zayre also plans to buy back 750,000 of the 9.4 million shares of TJX, the company it spun off in July to capitalize on the success of its T. J. Maxx off-price apparel chain. Its stock initially sold for $23 a share, rose to a high of $28 and then plunged to a new low of $12.75.

Other discounters among the many corporations either to announce or to increase stock buybacks include: Best Products, 2 million shares; CVN, 1 million shares; Dress Barn, 1 million shares; and Pic 'N' Save, 4 million shares.

In announcing the Pic 'N' Save buyback, president Lewis B. Merrifield III said, "The company has decided to institute an open market repurchase program because we believe that the company's common stock presents an attractive investment opportunity at current prices.

"Due to the overall stock market volatility and the current negative perception of retail industry stocks now prevailing among stock analysts, the company's common stock is trading at the low end of its 52-week range and near the price prevailing during 1985."

That high was $29.50. On Oct. 26, Pic 'N' Save closed at $11.

Best Products spokesman Mark Murphy said, "The price is so low, it provides a terrific opportunity." When Best announced the buyback plan Oct. 20, its stock had sunk to a low of $6, or less than half its book value of $14.30 per share.

Best's ability to repurchase shares is limited because cash is at a low point in its annual cycle. Best has about $12 million in cash available for buybacks, Murphy said, but must use most of its cash to build Christmas inventories.

Takeovers Still Viable if Financing Is Available

Nationwide DSN Report

Despite the turmoil in financial markets and a pending tax bill that would limit interest tax deductions on takeover financing, the restructuring of corporate America through acquisitions, mergers and leveraged buyouts appears far from dead.

Depressed stock prices still make takeovers and leveraged buyouts tempting—if financing again becomes available, said Fred Wintzer, an analyst for the Baltimore brokerage firm of Alex Brown & Sons. "Takeovers make sense, if the money is available."

"A lot of hostile takeovers, financed with funny stuff, may be on hold," he said.

If acquisitions resume, "maybe we'll go back to the normal pattern of big fish taking over little fish, and less of the zany stuff and fewer hostile takeovers."

Specialty apparel chains appear to be particularly good bargains in today's market, Wintzer said. Selling before the crash for as much as 22 times earnings, chains such as Dress Barn now sell for about eight times earnings, he said.

T. Boone Pickens, the consummate corporate raider, predicted that plunging stock prices could touch off a new wave of corporate takeovers.

Appearing at a takeover symposium in Atlanta, Pickens said, "If companies were attractive targets when the Dow was at 2,500, they will be even more attractive with the Dow at 1,800," *The New York Times* reported.

"When you have this kind of dramatic activity in the stock market, you have people who say, 'I'm not willing to do any financing until I see which way this thing is headed,' " he said.

That caution could dampen takeover activity, Pickens said, but added, "I don't think this is going to last very long."

At presstime, the U.S. House of Representatives was set to vote on a $12 billion tax increase bill that also would dampen takeovers. One provision of the bill would limit to $5 million the amount that could be deducted from taxes for interest on securities floated to finance takeovers.

Some takeovers are almost completely financed through high-interest junk bonds. Deductibility of interest is a major factor in computing cash flow—and hence market price—of the target company. Some economists predict that ending the interest deduction would deal a crushing blow to potential takeovers.

Undaunted by market insecurity, Seymour Holtzman, president of Jewelcor, Wilkes Barre, Pa., announced Oct. 26 plans to take the catalog showroom chain private in a $42 million leveraged buyout.

Holtzman expects to use straight bank financing, rather than float junk bonds, said Michael Dodge, director of corporate development. At presstime, Jewelcor was expecting to disclose the details by Nov. 5, Dodge said.

Jewelcor stock closed Oct. 26 at $13.50, compared to its pre-crash high of $19.25.

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Discounters: Yule Be Alright Despite Market Crash

But Weaker Sales, Profits Predicted for 1st Half of Next Year

By Richard C. Halverson
Nationwide DSN Report

Black Monday's stock market crash has had little, if any, effect on Christmas plans of discounters.

However, a number of economists and industry observers caution that the aftershocks of the crash will contribute to weaker sales and profits through the first half of 1988.

Surveys show that consumer confidence remains fairly strong and retail sales for October are reflecting the same sluggish pace that prevailed all summer, with no marked decline since the crash (see accompanying story).

Problems with bloated inventories at off-price apparel chains started piling up last June—long before the Dow Jones Average plunged 508 points Oct. 19.

"I see no evidence that the crash has affected discounters," said James Newton, president of Economic Perspectives, a Delaware, Ohio, marketing research and consulting firm that includes a number of major discount chains among its clients.

"They were geared up for a modest Christmas, and I expect them to have a modest Christmas. I foresee no bloodbath," even though more price-cutting than usual might affect profits, he said.

In fact, the crash, which hit higher income consumers harder than it did middle income groups, might help apparel retailers a bit because consumers could shift spendable dollars out of big-ticket durable goods into consumable purchases, such as apparel, Newton predicted.

Newton said he made his projection of a modest retail decline of 0.5 percent in 1988 before the crash but had already factored in the impact of an anticipated stock market decline.

Jack Brouillard, senior vice president of finance at Hills Department Stores, Canton, Mass., said, "We haven't changed our Christmas plans in any way because of the crash. We always keep inventories tight. Basically, we're keeping an eye on conditions."

K mart, Troy, Mich., so far has seen "no noticeable affect of the crash on business," said Orren Knauer, director of investor relations. Accordingly, "There's nothing different now for Christmas.

"We're watching sales patterns, as we always do," Knauer said, "and we're alert to any further break in the stock market that could lead to consumer uncertainty."

Predicting what consumers will do has become particularly hazardous since the crash, Knauer said, referring to a *Wall Street Journal* column that rated the safety of post-crash economic forecasting on a par with skydiving.

At S.E. Nichols, New York, "It's hard to tell any immediate impact on sales from the crash," said senior vp for

(Continued on page 26)

October Sales Shrug Off Effects of Black Monday

Nationwide DSN Report

October retail sales of the major discount chains reflect no readily apparent damage from the stock market crash of Oct. 19. Of those chains reporting results this month, most fall within the same sluggish pace set over the summer and fall but with some softening in big ticket items.

Stock prices also bounced back somewhat during the two-week period ended Nov. 6. Of 63 discounter issues on *DSN*'s stock index, 26 advanced, 30 declined and seven were unchanged. That compares favorably to the previous two-week period when all 63 issues fell in price.

(Continued on page 26)

STOR Introduces IKEA-Style Home Furnishings Outlet in So. California

By Pamela Krein

CITY OF INDUSTRY, Calif. — STOR, a new contemporary home furnishings retailer, opened its first of 30 planned locations here in late October.

Similar to IKEA, Conrans and Federated Department Stores' HomeWorks in product selection, ambience and operating philosophy, STOR offers European-styled, ready-to-assemble furniture and cabinets, domestics, and housewares in a 150,000-square-foot, two-story site.

With 70 complete room vignette displays, a self-service warehouse and compact packaging, STOR said it aims at providing "quality and contemporary design at an affordable price."

In addition to the home furnishings, STOR also contains a children's activity center, a restaurant and an international food store.

The privately held company, located some 25 miles east of Los Angeles, anticipates opening three additional stores in 1988, and expects to have 30 stores—primarily in California—within the next three to five years.

New STOR: Jim Stadtlander, president, and Harvey Knell, executive chief officer, at debut.

Former Caldor Exec Heads TSS-Seedman's

By Laura Liebeck

BROOKLYN, N.Y. — Julius Kasinitz, a veteran retailer who has held top positions with Two Guys, Caldor and Almy's, was named chairman, president and chief executive officer of TSS-Seedman's earlier this month.

His Nov. 2 appointment coincided with the closing of the sale of the 32-unit discounter to an investment group for $50 million in cash and stock.

Under the terms of the sale, George Seedman, who founded the chain as Times Square Stores in 1929, retains an undisclosed amount of stock and continues as chairman of the company's advisory committee. Longtime TSS executive Barry Gold remains vice chairman of the board.

Resource Holdings, the New York City-based merchant banking group that purchased 81.36 percent of the stock, also provided a $7 million cash infusion to be used as working capital, said a spokesman.

Kasinitz, 59, told *DSN* he intends to both grow and diversify the company, paying particular attention to the 12 full-line New York metropolitan area discount stores which

(Continued on page 4)

SUPER BUY
17.99
2.39
7.99

Three aisles of "Super Buy" promotion tables parade through Caldor, Secaucus, N.J., indicative of the chain's renewed commitment to low pricing. (DSN photo)

Caldor Tackles Ambitious Plan to Revitalize Stores

By Mary Ellen Kelly

NORWALK, Conn. — Caldor plans to make use of K mart and Wal-Mart-type merchandising dynamics to improve its merchandise and service orientation, according to Don Clarke, chairman.

Clarke described the recent rash of in-store merchandising and decor changes as the "evolution of a new operating environment," that is meant to revitalize Caldor's "old, tired looking stores."

Sharper prices, higher profile displays, abundant bargain tables, new security systems and updated interior decor are among the alterations which mirror examples set by discount powerhouses K mart and Wal-Mart.

"We are trying to grow the business we currently have

(Continued on page 4)

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MARKETWATCH

Southland Buyout Attempt Fizzles

DALLAS—Unable to find buyers for $1.5 billion worth of junk bonds, Southland Corp. announced it cannot proceed with plans to take the company private through a $4 billion leveraged buyout. The impasse puts in question plans to sell its Chief Auto Parts chain, the dairy supplying its 7-Eleven convenience stores, and other assets to pay down acquisition debt. Prior to the stock market crash on Oct. 19, it had hoped those assets would fetch $1.1 billion. Following the news Nov. 10, Southland stock plunged $16.25 to $51.50, another blow to a stock crushed in the crash. On Aug. 1, the controlling Thompson family acquired two thirds of Southland's shares at $77 per share.

Sport Goods Warehouse Opens in Florida

FORT LAUDERDALE, Fla. — Sports Authority, the warehouse-style sporting goods operation founded by former Herman's executive Jack Smith, opened its first store in early November, in Fort Lauderdale. According to Smith, this will be the first of eight in southeastern Florida, with a second now under construction in North Miami.

IMRA to Hold Distribution Conference

SAN DIEGO—The International Mass Retail Association will hold its fourth annual Distribution and Transportation Conference here Jan. 20 to 22, 1988, at the Intercontinental Hotel. Speakers will include Wal-Mart's Robert L. Martin (VICS Committee update/UPC Bar Code Standards) and keynoter Peter Crosby ("Innovative Management Using Today's Technology"). More breakout sessions on a variety of subjects will also be included in the program, as well as manufacturer exhibits. For registration information, contact IMRA at (212) 354-6600.

Zayre Expands Discount Tire Centers

FRAMINGHAM, Mass. — Zayre has expanded its discount tire centers, called Tire Slashers, to 97 stores out of the 105 that formerly offered automotive service. In August, Zayre ended all automotive service. The rollout followed a brief and successful test in 10 stores. Stanley Berkovitz, vice president, consumer affairs, said that Tire Slashers offer name brand tires at "incredibly low prices." Tire prices are "very comparable" to those at Zayre's warehouse club subsidiary, B J's Wholesale Club, Berkovitz said.

Wal-Mart Cited as Canadian Tire Suitor

TORONTO, Canada — Canadian Tire Company, Canada's largest auto aftermarket chain, will likely become a takeover target because of feuding within the controlling Billes family. Within Canadian financial circles, Wal-Mart is being mentioned as one of several potential buyers, said Neil Wickham, an analyst for Walwyn, a Toronto brokerage firm. Others mentioned include Sears Canada, Seagrams and Molson, the Canadian brewer. Merrill Lynch Canada, also located in Toronto, has been asked to locate a buyer for Canadian Tire, which logged sales of $2.3 billion (Canadian) in 1986, equal to about $1.6 billion (U.S.).

Wal-Mart's Self Resigns

BENTONVILLE, Ark. — Charles Self, vice president, corporate finance at Wal-Mart, resigned, effective Nov. 13. Paul R. Carter, executive vice president of special divisions, has been promoted to exec vp of finance, assuming Self's responsibilities. Carter will also retain some of his former duties. Westley C. Wright, who was vp of personnel, will head special divisions. Self, 53, told *DSN* that he will be moving to the state of Washington to pursue personal interests, adding that any business activities "will not be in discounting. If I wanted to stay in discounting, this is the place to be." Self said his years at Wal-Mart—he joined the discounter from Zayre Corp. in 1979 as controller—have been "the highlight of my business career. It's an exciting place with exciting people."

FOR THE RECORD

The photograph of ladies' hosiery that appeared in *DSN's* Oct. 26 issue was taken at a Bradlees store. *DSN* inadvertently misidentified the chain.

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K mart Introduces Martha Stewart Home Goods Program in 406 Stores

TROY, Mich. — The long-awaited introduction of Martha Stewart as the K mart spokeswoman for its Home Fashions Division was unveiled on Nov. 9 with the opening of 406 newly reformatted Kitchen Korner departments and magazine and television advertising.

TV ads will be contained to the 406 stores in 11 markets—Detroit, Chicago, Dallas, Philadelphia, Atlanta, Tampa, Fla., Indianapolis, Denver, Seattle, Minneapolis, and Kansas City, Mo.—until mid-December when the ads take a hiatus until national rollout during the Winter Olympics, said K mart marketing consultant Barbara Loren, president of Loren Synder Marketing, Birmingham, Mich.

By March, all K marts will have the full Martha Stewart program, including in-store signage, a bookrack for her books, and "Kornerstones," a "tip sheet" on entertaining.

Costco Sales, Earnings Rise in 1987

SEATTLE — Closing its most ambitious year, Costco Wholesale reported an 83 percent sales gain to $1.37 billion and a 14 percent net income increase to $5.04 million for the fiscal year ended Aug. 30.

During fiscal 1987, Costco experienced its most rapid period of growth, opening 20 warehouses. With the opening of an additional warehouse since the close of the year-end, Costco has 43 sites in nine states and western Canada.

Costco recently increased its bank credit commitments from $30 million to $75 million to cover expansion and seasonal costs, according to Richard Galanti, chief financial officer. He said Costco would slow its growth in fiscal 1988, and would probably open only six to eight warehouses primarily in existing markets. Over half of the sites will be in California and one warehouse will open in Honolulu—a new market—next spring, he said.

The expansion cutback is part of a "planned slowdown" to enable Costco to "digest what we did last year," Galanti said. He added that there are "still a lot of irons in the fire" for possible site acquisitions, but nothing to the extent of the opportunities available to the company last year.

Costco also reported its fourth quarter results, which showed net income increasing 45 percent to $2.58 million on an 87 percent sales gain to $495 million. Comparable store sales for the quarter increased 17 percent, while same store sales for the entire fiscal year experienced a 23 percent gain.

Luria Establishes Anti-Rebate Policy

MIAMI LAKES, Fla. — L. Luria & Son has notified vendors that any manufacturer who insists on offering rebates will have to pay a fee on that merchandise effective January 1988.

A letter sent by president Peter Luria last month established the new "Vendor Consumer Chargeback Program." The new policy states that vendors will be charged $300 per rebated model, at each of the cataloger's 43 Florida stores, or $12,900 for each rebated model. Vendor accounts will be debited on the date that the rebate goes into effect.

Leonard Luria, chairman, indicated that this tactic will not be needed in most instances. "We have instructed our buyers not to buy rebated goods. If it means buying a derivative item, we will," Luria said, adding that the chargeback policy would be used in cases where the cataloger has not found a suitable replacement for a rebated model.

Luria tried this approach several years ago, but vendors had failed to comply. Chairman Luria said K mart's decision to eliminate rebated merchandise (see *DSN*, Oct. 12, page 3) has created sufficient anti-rebate sentiment in the retail industry for this strategy to now be effective.

The letter reiterated Luria's commitment to manufacturers who agree to eliminate rebates. "As a matter of corporate policy, we will favor those vendors and those products that do not have rebates."

Worlds of Wonder Cuts Toy Prices

FREMONT, Calif. — Worlds of Wonder based here is cutting prices on some of its most popular toys and exploring possible recapitalization or sale of part or all of the company to avoid filing for reorganization under Chapter 11.

WOW reported a record loss of $43 million on sales of $49.7 million in its second quarter, ended Sept. 30. In the year-earlier period, it reported net income of $4.1 million on sales of $61.7 million. Last year, WOW reported annual sales of $327 million.

The loss for the quarter included a reserve of $29.8 million for price cuts and disposal of excess materials. According to a company representative, the largest portion of that charge is the price reduction. The rest is coming out of the company's intention to make less product in the near future with committed quantities of custom parts.

WOW, which grew faster in two years than any other manufacturing concern in the United States, expects to post a net loss at the end of its current fiscal year. The most immediate step taken is the 15 percent to 20 percent reduction in cost to retailers on the Teddy Ruxpin animated plush figure, and a majority of product lines.

The company hopes to see increased sales as early as the third quarter from the price cuts. Its optimism also stems from a renewed credit line through next September allowing the company to borrow up to the lesser of $100 million, or 75 percent of eligible accounts receivable.

Positive consumer response to newer lines of Little Boppers dancing dolls and the Julie talking doll has also fueled an optimistic outlook. WOW is now shipping both lines in volume for this Christmas.

On the verge of what many believe will be a problematic Christmas at best, two other toy companies also reported lower earnings this month.

In their recently completed third quarters, Hawthorne, Calif.-based Mattel reported a loss of $14.2 million compared to net income of $16.3 during the third quarter last year. Pawtucket, R.I.-based Hasbro reported its profits fell by 71 percent to $11.2 million from $38.2 million during third quarter last year.

For the six months ended Sept. 30, WOW's loss totaled $53.5 million on sales of $72.7 million compared to a net income of $2.8 million on sales of $85.2 million during the first half last year.

Developer Tries for NYC Outlet Mall

NEW YORK — A partnership that includes one of the nation's largest developers of factory outlet malls has made progress in getting city permission to convert a refrigerated warehouse into an eight-story discount shopping center in New York City's Chelsea district.

The partners are Belz Enterprises, Memphis, Tenn., and Hirschfeld Realty, New York. Their application to convert the warehouse was returned to the New York City Planning Commission after a community board endorsed the proposal, 31 to 4.

Belz president Andy Groveman said he expects action on the permit in about four months but declined to disclose what it would cost to convert the 532,000 square feet into discount apparel and home furnishings shops.

Belz operates six factory outlet malls featuring manufacturer-operated stores, and units of off-price apparel chains such as Dress Barn, Hit or Miss and Burlington Coat.

Zayre Enters New Pennsylvania Market; Eyes Philadelphia

By Richard C. Halverson

MECHANICSBURG, Pa. — Zayre is wrapping up its 1987 expansion, which added 21 new stores, after opening one unit in late October and four more by Thanksgiving.

The new Mechanicsburg store, which opened Oct. 25, marks Zayre's entry into a new market, the Harrisburg capital region, and is the 15th Zayre store in the Keystone State. Of Zayre's previous Pennsylvania units, 10 of 14 are located in the western part of the state, in and around Pittsburgh.

The four Zayre units slated to open this month will push total store count to 383, said Stan Berkovitz, vice president, consumer affairs. For 1988, Zayre plans to open about 25 stores.

The Zayre units opening this month are in Milford, Mass., about 30 miles from corporate headquarters; Brockton, N.Y., part of the Rochester area and another new market for Zayre; Deerfield Beach, north of Miami, and Pensacola, Fla.

In Harrisburg, Zayre bumps heads with K mart and Hills, which dominated the discount market here with three stores apiece.

A Zayre source, who asked to remain anonymous, declined to divulge details of Zayre's expansion strategy but indicated that Philadelphia might figure in the discounter's future.

The source indicated that possible expansion into Philadelphia was "still in the discussion stage." But he ruled out New Jersey, where Zayre operates two B J's Wholesale Clubs, as a likely target for Zayre discount stores.

In layout and design, the Mechanicsburg store follows the racetrack prototype Zayre has been using for 10 years. The Framingham, Mass., retailer uses that entire racetrack aisle for merchandising in dump bins on plastic pallets.

High impact merchandising is the dominant feature of the hard lines departments, which take up about one-third of the estimated 50,000-square-foot selling floor. Adjustable gondola shelves extend to 84 inches in height, and merchandise, such as paper towels, toilet tissue and storage "milk" crates, is stacked five to six feet higher.

Zayre Stores
Division of Zayre Corp.

Framingham, Mass.
Number of Stores: 383
1986 Sales: $3,046 million
Percent Change from 1985: +15%
1986 Earnings: $130 million
Percent Change from 1985: −8%

Source: DSN research

Backroom storage occupies only a narrow slice on the end of the 150 feet deep store.

This Zayre store even uses the wall space over doorways to the stock room to display such goods as cassette tapes on pegboard hooks.

Apparel is displayed in about half of the store. Including domestics such as window treatments and sewing fabric, soft lines comprise about 60 percent of selling space. Ladies' apparel is conspicuous by the absence of brand names, except for Gitano jeans. In men's, Zayre offers Lee, Wrangler and McGregor.

In hard lines, the store gives the most prominence to toys. In contrast, sporting goods, is less dominant. Ball goods, bicycles, four styles of tennis rackets and sleeping bags are the major offerings.

The merchandise mix in Zayre stores varies by region according to demographic considerations such as ethnic makeup and income levels, and other local factors, said the Zayre source.

One local factor that Zayre apparently overlooked is that Central Pennsylvania is a prime deer hunting region. Many companies give their employees the day off when deer season opens the Monday after Thanksgiving.

The nearby K mart prominently displays deer hunting gear, including rifles, camouflage hunting suits, blaze orange caps and vests and camp stools. But Zayre stocks none.

"Zayre isn't interested in guns and ammunition," the source said. "Sporting goods isn't a department that does particularly well for us." But normally Zayre would stock hunting apparel in such a situation, he added. "Apparently, we missed that. But they'll pick it up," he said.

In keeping with Zayre's new policy, the Mechanicsburg store will remain open around the clock from 8 a.m. Monday until midnight Saturday. Sunday hours are 10 a.m. to 7 p.m. Such round the clock operations are a first for the Harrisburg market.

British CE Retailer Casts Eye on Newmark & Lewis

By Josephine Fiamingo

HICKSVILLE, N.Y. — Richard Lewis, president of Newmark & Lewis, has denied published reports that the purchase of the 46-store consumer electronics chain by a European-based CE retailer is imminent. Lewis told *DSN* that informal meetings between the two firms in August and September never reached the serious stage. But, he declined to rule out the possibility of future negotiations with the Dixon's Group, Britain's largest CE retailer.

Dixon's operates 1,200 stores in England under the names Dixons, Currys and SupaSnaps. In April, the Middlesex, England-based company acquired Silo, the third largest CE chain in the United States. In July, Dixon's bought Tipton Centers, a regional electronics chain based in St. Louis. Neither Dixon's nor Silo would comment on the talks with Newmark & Lewis.

With combined 1986 sales of $684 million, Silo's and Tipton's 149 stores provide Dixon's with the second largest CE chain in the country. And, if Newmark & Lewis' 46 stores and $214 million in sales were added, Dixon's could challenge industry leader Circuit City for the top spot. Richmond, Va.-based Circuit City reported sales of $1.01 billion last year. But Dixon's store count, including Newmark & Lewis, could become a whopping 195 stores, almost double the 97 present Circuit City stores.

An investment analyst who has been following Dixon's move into the U.S. said that Silo and Tipton provide Dixon's with a strong foothold to grow through additional acquisitions over the next three to five years. Many analysts suggest the time is ripe since many CE chains have sent signals to the market that they would entertain offers.

August Discount Sales Climb 7.7%

Nationwide DSN Report

Retail sales at discount department stores rose 7.7 percent in August to $5.60 billion, recovering some of the ground lost since May when sales peaked at $5.76 billion, the U.S. Commerce Department reported this month.

Since January when the Commerce Department started tracking retail sales at discount department stores, sales have totaled an unadjusted $39.89 billion. Discount department stores is the largest retail segment within the general merchandise category, accounting for nearly 42 percent of its $95.73 billion eight-month sales total.

Sales for the general merchandise category represent a 5 percent increase over the same eight-month period in 1986. For August, sales rose 12.7 percent over July, to $13.6 billion.

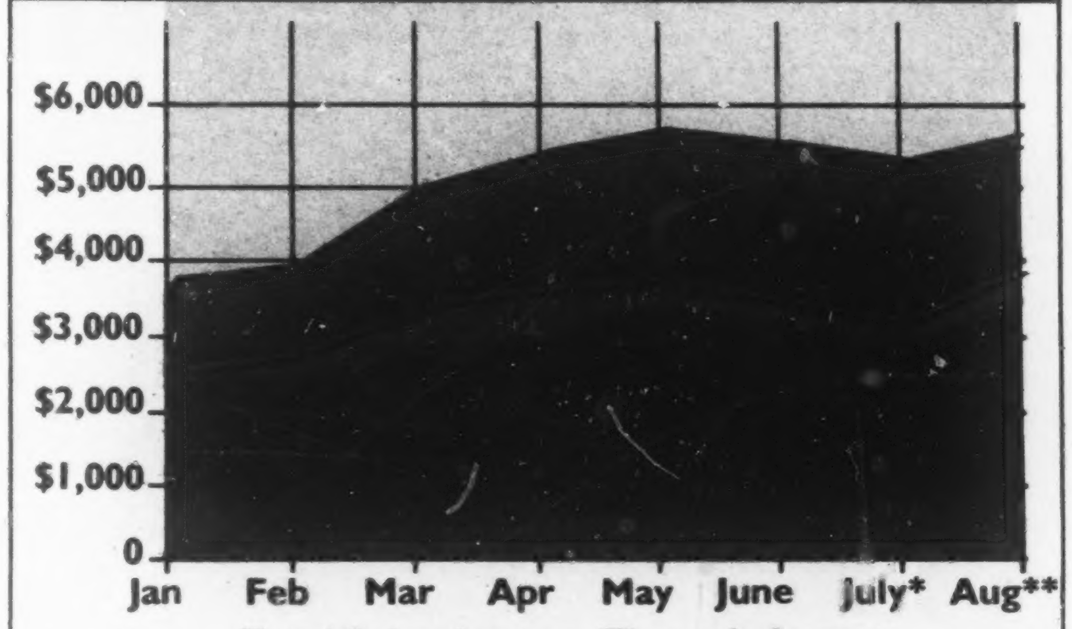
Total retail sales during this eight-month period were an unadjusted $976.5 billion, up 4.8 percent from the $931.6 billion recorded during the same time last year. Excluding auto sales, retail receipts for eight months were an unadjusted $746.2 billion, up 4.7 percent from a year ago.

In August, retail sales were nearly $131 billion, unadjusted, up 1.6 percent from July. Sales excluding autos were $98.90 billion in August, unadjusted, also 1.6 percent above July's sales figures.

Discounters Continue to Outpace Other Retail Types

Retail Sales for General Merchandise Group (unadjusted)

(In Millions of Dollars)



Total Sales: January Through August:

Discount Department Stores	$39,891
Conventional Department Stores	$26,506
National Chain Department Stores	$21,409
Variety Stores	$5,257

**revised* ***preliminary* *Source: U.S. Commerce Dept., November 1987*

Mervyn's Installs Storewide Scanning; Tests Satellite System

HAYWARD, Calif. — Mervyn's, the soft goods chain division of Dayton Hudson, introduced storewide scanning capabilities this month.

Mervyn's management information system is "aggressively going with scanning and bar coding," said Dennis "Mick" Connors, vice president of MIS. "We [in MIS] feel we're a vital part of the strategy and where Mervyn's is going . . . it's a real tool to our success," he said.

Storewide scanning now allows for constant sales monitoring. The company is installing a new NCR point-of-sale register in its new stores, while replacing some of its older registers in existing stores, Connors said.

In October, the chain opened 10 stores—eight in Michigan, one in Southern California and one in Texas—and one more store will be opened later this month, bringing the chainwide total to 200 stores.

While many of the improvements inherent in the new NCR 7052 models are technical and maintenance improvements, Connors said the registers also include a reader for credit cards. With this built-in system, approval requests are fed directly through the register to an in-store computer then on to headquarters.

While the process stops at headquarters if the charge card is a Mervyn's credit card, the approval step proceeds on to the banks if the purchase is to be made by Visa or MasterCard. This capability only takes a fraction of a second.

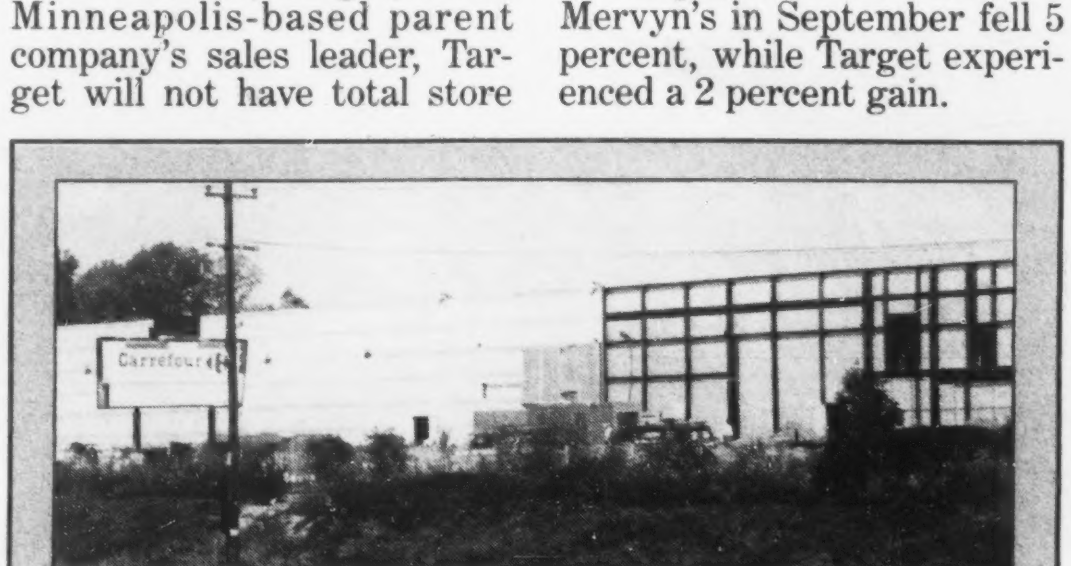
Mervyn's has also just tested a satellite system, but Connors said the company has not finished evaluating the program's effectiveness.

The promotional soft goods retailer has, however, moved forward with its electronic data interchange (EDI) system. By year-end some 100 vendors, representing about 80 percent of Mervyn's volume, will be linked with the retailer, Connors said. Invoices, bills of lading and information sharing will then be possible between the two apparel pipeline facets.

Then in February of 1988, Connors said that the chain would begin using vendor Universal Product Codes. Currently, Connors said the chain uses its own scannable bar coding for products, but he said that this can be easily switched to the vendors' UPC with a cross file system.

While Dayton Hudson's discount division, Target, is the Minneapolis-based parent company's sales leader, Target will not have total store scanning until the end of 1988.

Comparable store sales at Mervyn's in September fell 5 percent, while Target experienced a 2 percent gain.



Carrefour Readies U.S. Debut

Carrefour, the European retailer, is putting the finishing touches on its first U.S. hypermarket for an anticipated grand opening on Jan. 19. The huge 200,000-square-foot combined general merchandise and grocery store is located off State Road 63 in north Philadelphia. (DSN photo)

Home Products

Discounters Riding Crest of Home Decor Wave

Nationwide DSN Report

Americans are dissatisfied with their home decor and plan to purchase new products to remedy the situation. Further, a new nationally projectable study by *DSN* shows that discount stores have achieved comparability with full-price department stores as retail outlets of first choice for home furnishings products.

Eighteen percent of shoppers said they think of discounters first when planning to make a purchase in domestics and home fashions, while 20 percent think first of full-price department stores. Overall, national merchandisers, such as Sears and J.C. Penney, were named most often (28 percent) by consumers as outlets of first choice for home fashion.

Indicative of discounter acceptance in this blossoming category, discount stores placed a strong second to national merchandisers as a source for kitchen and bath goods, and in certain areas discounters made inroads among the predominantly older female, upper middle class audience that generally has favored the competition.

Fashion Orientation

The survey, conducted in August and September by Leo J. Shapiro and Associates for *DSN*, revealed that the most popular method of improving the home environment also reflects the fashion orientation; consumers were far more likely to "dress" a room to improve it than to bring in new furniture or make structural changes. Bedspreads, window treatments, drapes, linens and other "dress-up" type products were extremely popular.

Not surprisingly, younger and poorer households were less happy with their environment and more likely to do something about it. This group will also seek out discount stores more often than older, wealthier consumers. Young householders have had less time to accumulate home products, generally don't have the income to buy them, and are more likely to be status and fashion conscious than their more settled elders.

Overall, consumers were most satisfied with their kitchens and bedrooms. Bath and linen closets were the areas cited as needing most work.

Discount Share of the Domestics Market

What type of store comes to mind first when you shop for a new domestics product?

	Bathroom	Bedroom	Windows	Kitchen
Discount Department Store	23.4%	14.9%	14.4%	20.6%
National Merchandiser	24.4	27.4	31.2	27.1
Department Store	19.3	26.5	14.9	17.8
Furniture Store	—	11.4	0.4	1.6

*Source: Leo J. Shapiro & Associates/*Discount Store News, *September 1987*

Older and wealthier consumers tended to be happiest with the state of their bathrooms, which overall were pronounced perfect by a little less than a third of interviewees.

Younger consumers (under 35) and those who rent homes were the only groups to show significant unhappiness with their bedrooms. Every other category (respondents were broken up by age, sex, income, occupation and housing) seemed content, although a significant undercurrent of displeasure showed up among women and middle-aged consumers.

Young renters were also the outsiders in a generally consistent pattern of placidity concerning window coverings. About a third of respondents were very happy with their windows vs. only a quarter of the young and those who rent.

The linen closet finished last in degree of satisfaction. It also found little favor with the young, those who rent and the blue collar workers.

That same group was relatively unhappy with their kitchens, a room in which the overall population was very happy. Significantly more women expressed the highest level of satisfaction than did men. Older consumers were happier than the young.

By group, men tended to be happier with the bedroom and linen closet than did women, while women expressed a higher degree of satisfaction with kitchens and window coverings. Neither group was particularly happy with the bathroom.

In every category except the bath, there was a direct correlation between advancing age and a high rate of satisfaction. Middle-aged consumers (35-49) were slightly less happy with their baths than those under 35.

Homeowners were much happier than renters in every category; the wealthier (over $40,000 a year) were more content than the less affluent.

White collar workers and those not employed (including retirees) were marginally happier in every category than were blue collar respondents.

Of those who said they planned to buy a new home fashion product, the largest percentage planned to shop a national merchandiser in all four home fashion categories. Discounters were the second most popular choice in two areas: the bath and the kitchen, indicating, perhaps, a perception of discounters as a good source for smaller hard goods, and a lesser one for soft lines.

The discount share of the market by category was: bathroom, 23 percent; bedroom, 15 percent; window treatment, 14 percent; and kitchen, 21 percent. Discounters finished a close third to department stores in the window category.

Women tended to favor discount stores more than did men, as did renters. By a large margin, those earning less than $20,000 also favored discount stores. The not employed group, which contains retirees, was also more likely to frequent discounters than were other occupational groups, and the middle-aged consumers favored discounters more than did other age groups.

Over 60 percent of respondents plan to purchase something for their bedrooms, particularly furniture, beds and bedspreads. Over a third of them said that they were planning to make a major purchase (bed, furniture, chest, table) and about one in five were in the market for a bedspread or quilt.

Men were far more likely to be contemplating a major furniture purchase than women, but *much* less likely to buy a bedspread or quilt. Women were more likely to buy sheets or pillowcases, curtains and carpeting than men, while men favored small appliances, wall hangings and electronics for their bedroom decor.

Consumers were more likely to dress up a room to improve it than to bring in new furniture.

Older consumers (over 50) were unlikely to make any purchase, with the notable exception of bedspreads. Younger respondents were in the market for furniture, sheets and pillowcases, paint and wallpaper, pillows, linens, and bedspreads.

Renters were far more likely than homeowners to make a major bed or furniture purchase (one of three renters were planning to buy those products) and to buy sheets or pillowcases. Homeowners were more likely to buy bedspreads. Demand for most products was spread fairly even across income classifications, while blue collar workers were far more likely to contemplate a purchase in virtually every category than white collar workers or the unemployed.

Those with very low satisfaction ratings about their bedrooms were obviously more likely to do something about their unhappiness than those with high ratings, but the margin in many areas was surprisingly slim. Demand for carpet was almost even across the board, and those with high satisfaction ratings were more likely to buy small appliances, wall hangings and pictures, and electronics than were the dissatisfied.

MARKETWATCH

EDISON, N.J. — A slate of 10 directors proposed by Entertainment Marketing and the Oppenheimer-Palmieri Fund was elected to replace the entire board of **Crazy Eddie** at the CE chain's Nov. 6 shareholders meeting. Victor Palmieri, a general partner in the fund, became chairman of Crazy Eddie. Elias Zinn, chairman of Houston-based electronics wholesaler Entertainment Marketing, became president and ceo. First action of the new board included establishing new credit facilities and meeting with major suppliers.

* * *

RICHMOND, Va. — **Circuit City** reported a 40 percent increase in October sales to $109.3 million from $77.9 million last year. Comparable store sales for this period increased 7 percent. During October, the 97-store consumer electronics chain opened four new superstores in the San Francisco Bay area and a second in Memphis, Tenn. Four additional Bay area superstores are slated to open in mid-November. "Despite earthquakes in Los Angeles and turmoil in the financial markets," Richard L. Sharp, president and ceo said, "all divisions performed well and showed continued sales strength in the latter part of the month."

* * *

MINNEAPOLIS — Also in October, **Best Buy**, the 37-unit chain of CE superstores that is often compared to Circuit City, more than doubled its sales from last year's comparable month. October sales this year of $34.7 million were 104 percent greater than the $17 million achieved during the 1986 period. Year-to-date sales hit $205.8 million, more than double last year's $97.1 million for the comparable period. The chain reported that remodeled or expanded stores in the Twin Cities area reported sales increases ranging from 17 percent to 58 percent. As a group, Best Buy stores in its home market achieved a 15 percent sales gain. However, the chain's nine comparable stores (open for 14 full months) experienced a 2 percent decline in October, partially due to the expansion of nearby stores, said the company.

* * *

CLINTON, Ill. — **Revere Ware** is telling consumers to do the forbidden: put metal in their microwave ovens. This month the cookware manufacturer formally unveiled the first in what is expected to evolve into a line of stainless steel cookware designed for both stovetop and microwave oven use. The first piece, the Micro-Fryer, was created to let the consumer brown or sear meats and other foods on a conventional stove, and finish cooking in the same pan with the speed of the microwave oven. Pan shape, handles and glass cover were engineered for use in the microwave oven. Copper-clad and aluminum slab models are available. Peter Cameron, Revere president, said consumer re-education will be necessary at first, "but once they are convinced, there should be no problem."

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CUSTOMER SER

Bi-Mart's new prototype provides the Pacific Northwest discounter with a new layout, better adjacencies, modern fixtures and lighting, and additional service counters.

Bi-Mart Launches Prototype Invigorates Adjacencies, Mix

By Pamela Krein

EUGENE, Ore. — Membership discounter Bi-Mart has launched a new prototype, designed to update the 37-store chain's interiors, fixtures, mix and layout.

"The stores needed to be strengthened in adjacencies," explained Dale Ward, senior vice president and general merchandise manager for the subsidiary of Seattle-based Pay 'n Save. "We tried to take a step up in cheeriness and openness . . . and develop a smarter store."

All three of the 31,000-square-foot stores opened late this year incorporated the design of the new prototype. The chain's existing stores in Oregon and Washington are now being retrofitted. The company expects to have the remodeling completed in 1988.

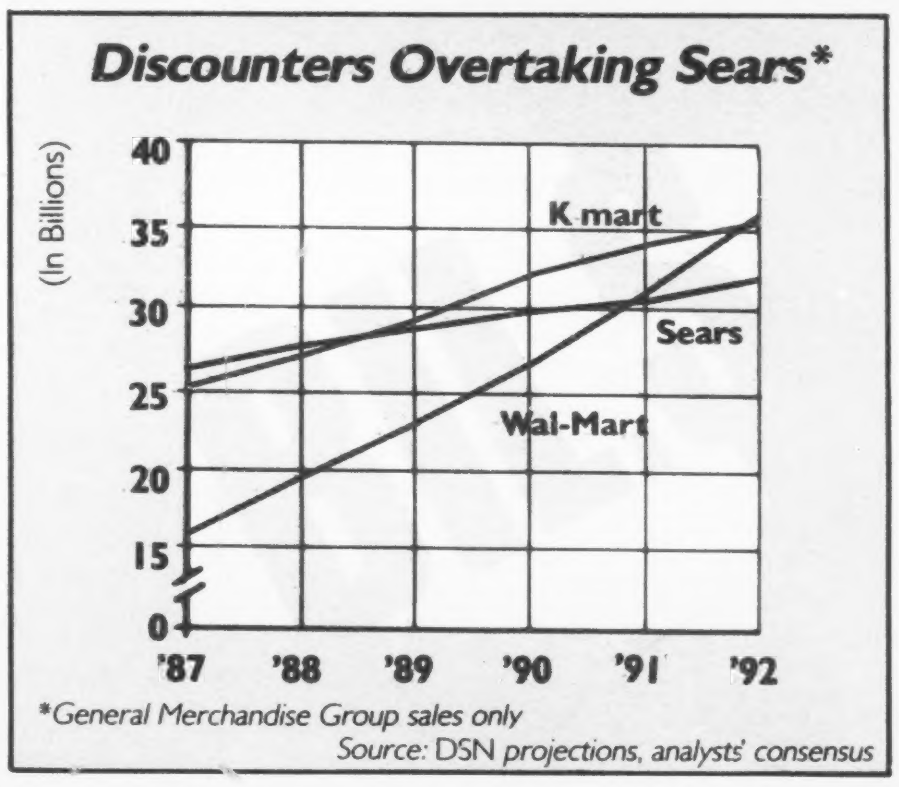
Changes have been significant. Store signage, lighting and fixtures have been modernized, and the entire layout has been altered and the product mix updated.

Although the stores still

(Continued on page 224)

Wal-Mart on Track to Pass Both Sears & K mart in Sales

Nationwide Report



*General Merchandise Group sales only

Source: DSN projections, analysts' consensus

The nation's two largest discounters should leapfrog over Sears, and could lay claim to the title "World's Largest Retailer" by the early 1990s. K mart, currently the No. 1 discount chain, is expected to surpass Sears' general merchandise division in sales perhaps as early as 1989. And, Wal-Mart, the second largest discount chain, has been growing so rapidly—about 35 percent this year-–it could pass Sears by 1991, and K mart, too, in 1992.

Barring major acquisitions, each of the three retailers are on a path to generate more than $30 billion in sales by 1991. K mart, according to *DSN* and analysts' projections, will be No. 1 that year, with over $34 billion. Wal-Mart should log in at over $31 billion, and Sears' general merchandise division is expected to produce just under that figure.

By 1992, Wal-Mart is projected to hit close to $36 billion in sales, slightly higher than the projected figure for K mart.

In this full issue study, beginning on page 53, *DSN* examines how K mart and Wal-Mart are going to hit those lofty heights, and takes a look at Target, the nation's third largest discounter, which has its own aggressive growth plans in *the race for dominance.*

Encouraging Holiday Outlook

Discounter Sales Climb in November

Nationwide DSN Report

Full-line and specialty discounters entered the critical December Christmas sales period somewhat encouraged by the November sales results at over a dozen major off-price retailers, most of which showed strong gains.

However, same store gains at discounters were small compared to the larger overall increases reported by most chains.

Sales increases at the three largest general merchandise chains, Sears Roebuck, J.C. Penney and Montgomery Ward, trailed those reported by discounters.

Discounters' November sales didn't seem to be impacted by the stock market's 500-plus point drop in October, although retailers noted that consumer buying in November was uneven, with the month, spurred by Thanksgiving promotions, ending stronger after a weak start.

The November sales scene showed the following:

Wal-Mart reported the largest increase, with sales jumping 26 percent to $1.6 bil-

(Continued on page 224)

Plans Rollout of Freestanding Specialty Stores

Ward Renames Specialty Categories

Minolta
Pentax
Canon
Olympus

This 'Focus Montgomery Ward' electronics and appliance store in California will be renamed 'Electric Avenue' under the retailer's plan to strengthen its specialty store image. (DSN photo)

CHICAGO — In an attempt to invigorate Montgomery Ward's new image as a chain of value-driven specialty stores, the retailer has introduced new names for several departments plus the rollout of freestanding specialty stores that bear those new names.

The 315-unit retailer has renamed its appliance and electronics department "Electric Avenue;" its jewelry department "Gold 'n Gems;" automobile parts and service "Auto Express;" and home fashions "Home Ideas."

(Continued on page 221)

Larger Discounters Lead Chains to Record Results

By Peter Hisey

NEW YORK — Discount stores set new records in sales per square foot and sales per store last year, according to the just-released "Cornell Study," but profits leveled after three consecutive record years.

The report, titled "Operating Results of Mass Retail Stores," was researched and compiled by Cornell University under the sponsorship of the International Mass Retail Association. It polled 24 discount store operations earlier this year, and reflects year-end results for fiscal 1986.

Rod Hawkes, a Cornell University extension associate and co-author of the report, said that while results were "not earth-shattering" this year, the overall trend is "healthy and evolutionary."

Hawkes called the rise in sales per square foot "encour-

(Continued on page 221)

A Look at Consumers Distributing's New Express Format

Hills Receives DISC Award for Service To Community

Proposed State Legislation Affects Discounters

MARKETWATCH

K mart to Retire Commercial Paper

TROY, Mich. — K mart is floating $200 million in 30-year bonds bearing interest of 10.5 percent. Proceeds will be used to retire commercial paper now carried on its balance sheet as long-term debt, said Orren Knauer, director of investor relations. "Long-term rates appeared attractive," he said. The bond prospectus notes K mart's ratio of earnings to fixed charges increased to 3.4 for the 52 weeks ended Oct. 28, 1987, from 2.9 in the same span of 1986. Morgan Stanley is the lead underwriter. Moody's reports K mart had $812 million in commercial paper outstanding at the end of its second quarter. K mart also announced plans to buy back up to $500 million worth of its stock.

Cook United Liquidates Inventory

NEW YORK — Cook United, the 62-year-old discount chain based in Maple Heights, Ohio, is conducting going out-of-business sales at its three remaining stores, two in Lima and one in Wauseon, Ohio. Craig Davis of New York-based Smith Management, which had funded the chain's attempted turnaround, said all proceeds from liquidation of inventory at the three leased sites will go to secured creditors. Geoffrey Lurie, former president and chief executive officer, resigned in mid-November, following the resignations of all other company personnel.

HSN Expects to Offer Financial Services

CLEARWATER, Fla. — The Home Shopping Network expects to offer a variety of financial services, including selling stocks and bonds, through its teleshopping shows in mid-1988. Preparing for its long touted move into financial services, HSN last month bought a seat on the New York Stock Exchange for about $750,000 and purchased for an undisclosed amount a small Texas regional brokerage and financial planning firm.

Stuarts Takes Over Former Mars Site

HOPKINTON, Mass. — Stuarts Department Stores will take over a former Mars Stores location and has closed its only multi-level store during the first quarter of 1988. The Mars store, in Lowell, Mass., will be closed at the end of January and reopened as a Stuarts store in early March. The merchandise inventories, store fixtures and capital improvements were bought from Mars by Stuarts for approximately $2 million. Both chains currently operate 21 stores in Northeastern states.

PACE: Out of the Red, Earnings Up

DENVER — PACE Membership Warehouse, the 33-store wholesale club chain based here, has climbed out of the red, reporting year-to-date net earnings of $91,000 for the nine-month period ended Oct. 11, 1987. In the first nine months last year, PACE posted a net loss of $1.16 million, and after the first six months of 1987 the company was still showing a net loss of $113,000. Year-to-date sales were $573 million compared to $361 million in 1986.

Warehouse Club Takes Net Loss of $6.4B

SKOKIE, Ill. — The Warehouse Club had a net loss of $6.4 million in the fiscal year ended Sept. 30, four times greater than its $1.7 net loss in the previous fiscal year. The loss came as sales jumped 45 percent from $157.3 million to $228.4 million, while the store count dropped to 12 units, three fewer than in 1986. Walter H. Teninga, chairman and chief executive officer, noted that the wholesale club had been tightening its operations and cited the fourth quarter results which showed sales in the three months ended Sept. 30 up 32 percent to $57.5 million from $43.4 million, while the net loss fell to $275,000 from $1.3 million a year ago.

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Oliver's Falls Victim to Shakeout Of Weak Off-Price Apparel Chains

RIDGEFIELD, N.J.— The continuing shakeout of weak off-price apparel chains has claimed its latest victim—Oliver's Stores Inc., the men's, women's and children's apparel off-pricer based here.

Oliver's, founded by Joseph Wolfer and Thomas Nadler in 1977, had once numbered 32 units. Its remaining 14 units should be closed for good by Dec. 20, according to Carmen Maggio, the court-appointed trustee. Its stores in northern New Jersey, New York and Connecticut are now running going out-of-business sales.

It experienced over $3.5 million in inventory shortages a year ago this month, and filed its Chapter 11 petition last March. At that time it listed liabilities of $13.5 million—of which $2.6 million were trade accounts payable—and assets of $6.3 million.

Maggio was appointed trustee in October after creditors moved to oust management on grounds of alleged fraud, incompetence and mismanagement.

Maggio, who said Oliver's owes creditors about $18 million, decided to liquidate rather than reorganize. Oliver's "wasn't making any money," he told *DSN*. When asked what he thought the causes of Oliver's problems were, he said, "Poor management, as well as other factors that I'm not at liberty to discuss."

No commitments for the stores' leases have been made yet, Maggio said.

Oliver's apparel inventory has been sold to New York-based NCM Corp. for $3.7 million, and NCM is running the current sales.

Oliver's sailed through the heady times of the off-price apparel store boom of the late '70s to mid-'80s. It went public last year, and raised $7 million in stock offerings for expansion. But increased price promoting from area department stores and other larger off-price chain store competition were factors in its demise. It also lost an estimated $3.8 million worth of goods in a warehouse break-in in February.

Auto Shack Becomes AutoZone

Auto Chain Forced to Alter Name

MEMPHIS, Tenn. — Auto Shack, a privately-owned chain of 421 discount auto parts stores, is changing its name to AutoZone, the company announced.

The change stems from the settlement of a lawsuit that Tandy Corp., owner of Radio Shack, brought against the chain's parent, Malone & Hyde—one of the South's largest grocery wholesalers—which founded Auto Shack in 1979.

Last year, Malone & Hyde spun off Auto Shack as a separate corporate entity, the first step toward taking the chain public. Even before the stock market crash on Oct. 19, a company spokesman had said that a public offering would be at least three years away.

The company held an employee contest to pick a new name, with a $5,000 prize for the winner. But, the chain got its new name from a professional concern, NameLab, San Francisco, which has come up with such names as Acura, (automobile), Compaq (computer) and ZapMail, said president Peter R. Formanek in a release. And "AutoZone is an instant reminder that we've got the best in auto parts, everything from A to Z," Formanek said.

The name has something else going for it: it is legally available in all 50 states, Formanek said. The chain currently operates in 15 states.

The company had to turn to an outside source because no employee submitted a suitable name that could be protected with a trademark, Formanek said. As consolation prizes, AutoZone has earmarked more than $15,000 to give each employee who submitted an entry a $50 U.S. Savings Bond, Formanek added.

Without releasing a timetable, he said the change would be done "as quickly as possible."

In 1986, when Auto Shack operated about 340 stores by the year's end, its estimated sales were $365 million. Describing his chain as the fastest growing in the country, Formanek said the company is adding 80 stores a year.

Southland Tries New Buyout Plan

DALLAS — Southland Corp., parent of the 7-Eleven convenience store chain and 465 Chief Auto parts stores, has sweetened its junk bond offering in attempts to carry off the second stage of its $5.1 billion leveraged buyout.

Its underwriters have registered with the Securities and Exchange Commission an amended offering in which buyers of about $947 million of $1.5 billion in junk bonds would also get warrants, or rights, to buy common stock.

Stockholders this month were expected to approve the buyout of Southland by the founding Thompson family.

Interest rates on various classes of the junk bonds are expected to range from 15.5 percent to 18.25 percent. However, Southland couldn't find enough buyers last month and had to cancel the offering as originally proposed.

A Southland spokeswoman said divestiture of its Chief Auto parts chain and other assets such as its dairy group and 1,000 7-Eleven Stores—valued at a total of $1.2 billion before the market crashed—is going forward independently of the bond offering. Southland is actively negotiating with at least one would-be buyer of Chief Auto, she said.

Hills Backs Anti-Drug Crusade

Gene O'Donnell, senior vp, gmm for Canton, Mass.-based Hills Department Stores, presents $23,653 check to Ivy Cohen, executive director of the Just Say No Foundation. Presentation marked the completion of Hills' 'Choose to Care' program, which ran in cooperation with Procter & Gamble. Hills was also honored with the 1987 Discounter in Service to the Community Award. See story, page 47.

DSN Editor to Lead Workshop at CES

LAS VEGAS, Nev. — A panel discussion on telephones and answering devices, scheduled for the Winter Consumer Electronics Show in January at the Convention Center here, will be moderated by Tony Lisanti, editor of *DSN*.

The workshop, entitled "Telephones & TADs: The Dilemma of Product Selection," will be held Thursday, Jan. 7, at 1 p.m. The panel will cover pertinent topics including models, features, price points, fashion and quality.

Panel members include: Joe Mullin, Hills Department Stores; Lee Hardy, Tele Inc.; Anthony Bernardo, Sharp Electronics; Donna Trampel, Northwestern Bell Telephones; and Larry Richenstein, Planned Technologies.

K mart/Wal-Mart/Target
Corporate Profiles

The Big Three Chains Race for Dominance

With combined corporate sales surpassing $46.5 billion by year-end, the nation's three leading discount chains will rack up an impressive 14 percent of aggregate U.S. general merchandise, apparel and furniture sales in 1987.

And, the $41.1 billion that K mart, Wal-Mart and Target will generate through their more than 3,000 discount department stores represents nearly half of this year's projected volume for the entire discount department store industry.

After 25 years of record-setting growth, these front-running discount chains are poised to leave the rest of the industry in the dust as they implement programs aimed at attaining dominance in new markets, in new product categories and among a new set of consumers.

"We are becoming, in my opinion, one of the most dominant sellers of categories in mass merchandising and discounting. I can see it happening," said Joseph Antonini, who succeeded Bernard Fauber as K mart chairman in September.

Closing In on Sears

K mart clearly has its sights set not only on Sears' crown as the world's largest retailer, but also on Sears' customer franchise. In an interview with *DSN* at K mart's corporate headquarters, vice president, marketing Michael Wellman cited marketing programs such as sponsorship of the K mart Greater Greensboro Open golf tournament and the new Martha Stewart home furnishings program as examples of K mart's efforts to instill in its customers the feeling that K mart is "a little bit nicer, different, more positive, more influencing . . . going to offer a little more.

"If you put all these things together, pretty soon you develop and reinforce a very strong image of the complete store."

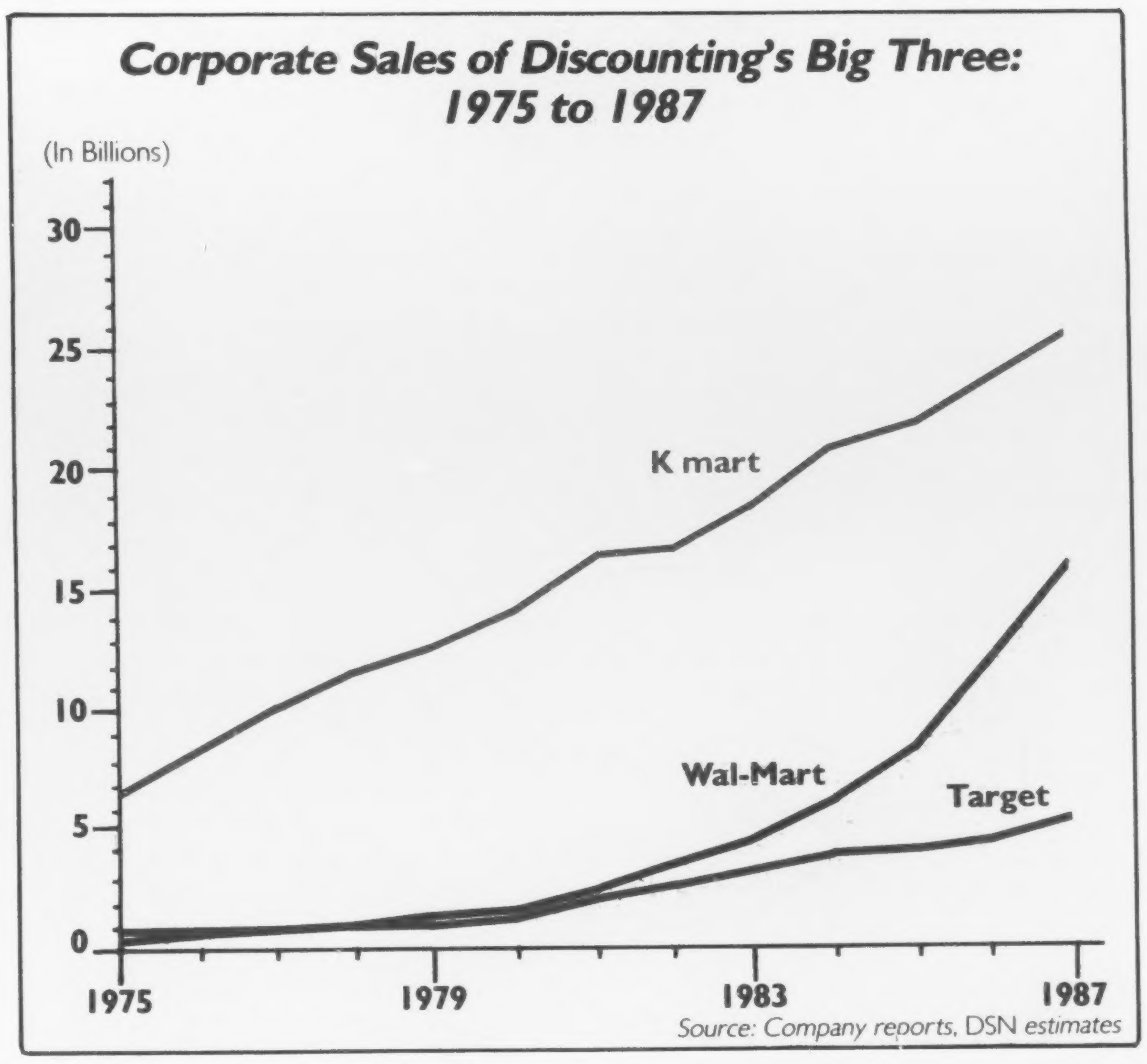
In the race for dominance, the Troy, Mich.-based chain is:

- Accelerating an ambitious store refurbishing program;
- Making rapid strides in technology with new point-of-sale and telecommunications capabilities;
- Hastening to develop its own hypermarket (general merchandise/food combo store) concept;
- Quickening its expansion pace.

But, despite renewed vigor under new chairman Antonini, K mart will be hard-pressed to hold its lead over fleet-footed Wal-Mart.

By 1991, the Bentonville, Ark.-based chain should be running neck-and-neck with K mart and could slip ahead in sales within five years. By dominating smaller markets and usurping K mart's role as the low cost operator in retailing, Wal-Mart has earned a reputation as "America's Opening Price Point."

In its 25-year history, Wal-Mart has seldom rested on its laurels. "The views and shopping habits of our customers are changing, and although it may not be readily apparent, so are we," said Jack Shewmaker, vice chairman and chief financial officer, describing the almost imperceptible alterations underway at Wal-Mart.


Corporate Sales of Discounting's Big Three: 1975 to 1987

Source: Company reports, DSN estimates

But, while changes in merchandising and operations have been subtle, its accomplishments have been conspicuous. In the past year, Wal-Mart's discount stores have posted the industry's highest comparable store sales gains; its Sam's Wholesale Clubs have sprinted ahead of Price Club to be the sales leader in that growing segment; its dot Discount Drug stores provide a foothold for growth in a not-unrelated retail segment; and its highly publicized hypermarket launch is nearly a year ahead of K mart's planned entry in that mostly untapped market.

At about one-third the size of Wal-Mart and one-fifth the size of K mart, Target is running a distant third in sales to the pack leaders. But, for many reasons, the Minneapolis-based upscale discounter has a smoother road ahead in its efforts to achieve the kind of retail dominance sought by the Big Three. It is different enough from K mart and Wal-Mart to compete effectively, both within and outside much of its traditional big metropolitan areas.

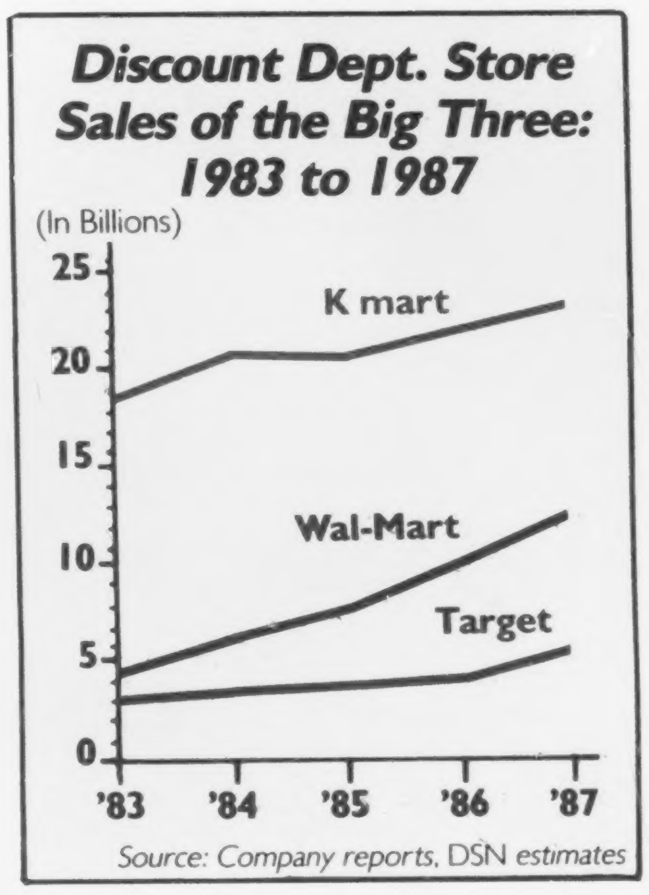
And, Target's goals are also ambitious: "With 25 years of solid experience behind us, we face an exciting future—one filled with expansion, new products, new programs and countless other challenges," said Robert Ulrich, who succeeded Bruce Allbright as chairman and chief executive officer, in a message to employees recently.

K mart is the only discounter with almost universal store penetration. It operates stores in all 48 contiguous U.S. states, plus Puerto Rico. A new consumer study of over 1,800 men and women, conducted for *DSN* by Leo J. Shapiro & Associates, Chicago, revealed that 84.3 percent of U.S. households have a K mart store in their area, compared to 27.8 percent and 27.0 percent for Wal-Mart and Target, respectively. Geographically at least, K mart is overwhelmingly dominant, with a penetration rate slightly higher than Sears'.

The study also showed that nearly everyone who has one of the Big Three discounters in their area shops that store. Within the past year, about eight out of 10 households that have a K mart or Wal-Mart in their area have shopped one of those stores. This is true for 75 percent of households with a Target nearby.

A trip to any of the three discounters represents a substantial commitment of time. Shoppers travel about 13 minutes to get to these stores. The time shoppers spend inside the store is more than half an hour—nearly the same in each chain. The decision to shop K mart, Wal-Mart or Target is usually about a one hour commitment by the customer (13 minutes each way in travel time and 31 minutes shopping equals 57 minutes).

These findings indicate that it's nearly impossible for a consumer to avoid becoming a customer of K mart, Wal-Mart or Target when these stores are in the area.


Discount Dept. Store Sales of the Big Three: 1983 to 1987

Source: Company reports, DSN estimates

Despite these common traits, each of the three discounters also has distinctive characteristics.

While each chain is a discounter, K mart has gone a greater distance in moving consumer thinking to the idea of low price. When people think of K mart, they think of the benefits of discounting in bringing down prices or making prices reasonable. K mart effectively expresses its distinctive personality as a store with low, reasonable prices through its slogan, "The Savings Place."

Each of the chains depends upon the sale of clothing to contribute a major share of sales and profits, but Target has succeeded somewhat more than K mart or Wal-Mart in becoming a clothing supplier. Of Target shoppers, 39 percent said that what they have mainly bought at Target in the past year is clothing. This compares to only 33 percent for Wal-Mart and 34 percent for K mart.

Wal-Mart attracts the largest annual expenditure from its customers, averaging $347 per year. Target, which does business with somewhat

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Wal-Mart Shoppers Are More Satisfied Than Shoppers at K mart or Target

How shoppers rate various store characteristics
Mean ratings on scale of 1 to 9 (9 = outstanding)

	K mart	Wal-Mart	Target
Finding Things You Want to Buy	6.79	7.34	7.04
Finding Good Quality Merchandise	6.62	7.34	6.99
Prices	7.17	7.67	7.34
Helpful and Friendly Store Personnel	6.36	7.09	6.16

Source: Leo J. Shapiro & Associates/DSN, December 1987

Target Appears More Resistant to Competition

Mean dollars spent at the store during the past year

Competition in Market	K mart	Wal-Mart	Target
Alone	$257	$435	$304
Only K mart	—	370	236
Only Wal-Mart	261	—	527
Only Target	164	299	—
Both Other Chains	178	253	294

Source: Leo J. Shapiro & Associates/DSN, December 1987

The Big Three Discounters Race For Dominance

(Continued from page 54)

fewer households in its trading areas, succeeds in getting an annual spending average of $297 from its customers. K mart, which does business with more households in its areas than Target and has about the same penetration as Wal-Mart, averages $234 per year from its customers.

Shoppers at Wal-Mart are more satisfied with the store than are shoppers at Target or K mart. They have a higher opinion of the merchandise, are more confident of finding what they want, and feel that store employees are friendlier and more helpful.

Few 'Protected' Markets

Despite their tradition of turf (Wal-Mart in small towns and Target in big cities), few Wal-Mart and Target stores operate in "protected" markets, that is, markets without one of the other Big Three chains in it. Only 20 percent of households with a Target in their area do not also have the choice of a K mart or a Wal-Mart in their area. The comparable percentage is 19 percent for households with a Wal-Mart in their area.

K mart is more protected, with 53 percent of the households it serves not having a Target or Wal-Mart store available. But, of course, this is because K mart is a national chain while Target and Wal-Mart are still mainly regional. In areas where K mart does not face one of the other Big Three discounters, it has other regional competitors.

When the three chains compete with each other, annual expenditures decline. For example, when there is no K mart or Target in the area, Wal-Mart shoppers spend $435 annually; this drops to $355 when one of the other chains are in the area and to $253 when both are in the area. These declines occur for K mart and to a much lesser extent for Target. Target appears to be less affected by competition from either K mart or Wal-Mart than either of the other two. This resistance to competition is likely a result of its stronger clothing position, its strong reputation for price, quality and the customers' ability to find what they are looking for.

At 25, the three chains are likely to continue to prosper if they don't keep too close company. K mart is the only one that has succeeded in becoming a universal retailer in America, but it does so at the cost of surrendering superiority in many markets in which it operates. K mart does not achieve the kind of dominance it would like when it faces Target and Wal-Mart, and perhaps other regionals as well. That may also be the fate of Wal-Mart if it sets its sights on America as has K mart.

But, with plenty of territory left to exploit on its traditional turf, Wal-Mart is not compelled to follow in K mart's path.

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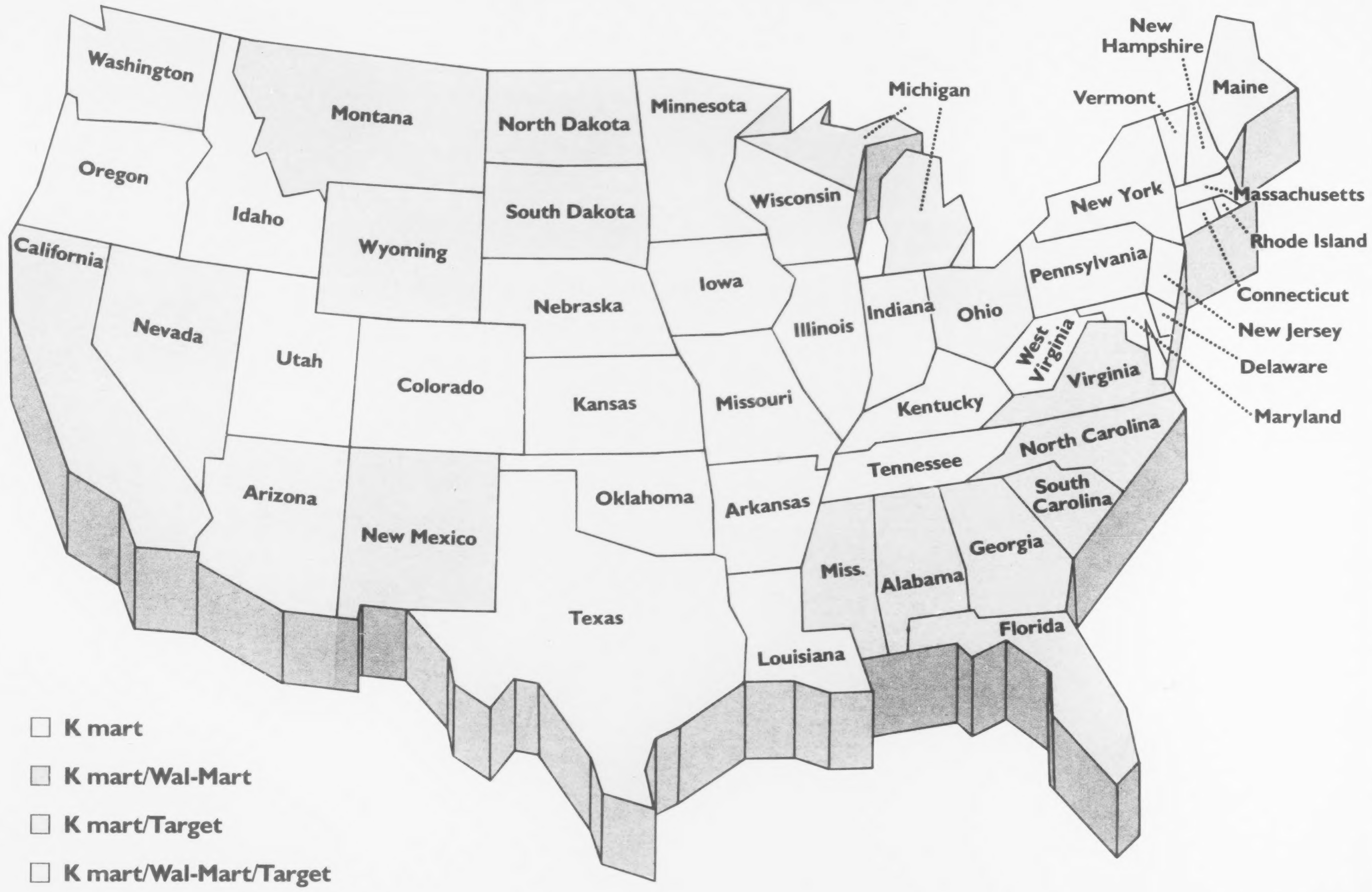
K mart/Wal-Mart/Target Expansion

The Top 3 Discounters Jockey for Position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Georgia
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Alabama
Texas
Florida
Louisiana
☐ K mart
☐ K mart/Wal-Mart
☐ K mart/Target
☐ K mart/Wal-Mart/Target

The Big Three: Store Count by State

State	K mart	Wal-Mart	Target
Alabama	41	61	0
Alaska	0	0	0
Arizona	25	0	12
Arkansas	19	74	3
California	157	0	91
Colorado	35	17	17
Connecticut	16	0	0
Delaware	3	0	0
Florida	144	74	0
Georgia	76	59	0
Hawaii	0	0	0
Idaho	11	0	0
Illinois	108	57	7
Indiana	76	16	31
Iowa	36	18	16
Kansas	26	36	2
Kentucky	48	47	5
Louisiana	38	63	2
Maine	8	0	0
Maryland	27	0	0
Massachusetts	30	0	0
Michigan	123	0	6
Minnesota	42	4	21
Mississippi	17	47	0
Missouri	42	101	9
Montana	11	0	2
Nebraska	18	10	4
Nevada	9	0	5
New Hampshire	8	0	0
New Jersey	42	0	0
New Mexico	20	15	0
New York	61	0	0
North Carolina	71	12	0
North Dakota	12	0	4
Ohio	124	0	16
Oklahoma	19	79	8
Oregon	21	0	0
Pennsylvania	108	0	0
Puerto Rico	11	0	0
Rhode Island	5	0	0
South Carolina	41	30	0
South Dakota	11	0	2
Tennessee	62	73	9
Texas	147	203	48
Utah	17	0	0
Vermont	3	0	0
Virginia	45	2	0
Washington	30	0	0
West Virginia	13	0	0
Wisconsin	48	10	10
Wyoming	10	0	2
Total	2,115	1,108	317

Store counts as of Dec. 1, 1987

Source: DSN research

K mart, Wal-Mart, Target Develop Their Strategies

Like a modern day General Sherman, Wal-Mart has continued its march to the sea—and the Canadian border. However, the sea this time is the *Pacific* Ocean and scorched earth has been limited to competitors' bottom lines, rather than crops and antebellum mansions.

Over the past five years, the company's growth has been mainly limited to the core of southern states that made up its 1970s market area, but the company's forays into new markets portend its expansion priorities for the future.

By contrast, Target, still trying to digest its acquisition of 53 Gemco stores in California, is expected to grow modestly in a gradually eastward direction over the next few years at a rate of about 10 percent per year in store count. And, K mart's store count is expected to grow at only 1 or 2 percent per year, barring major acquisitions or a bold move into rural markets.

Wal-Mart has announced that it plans to open about 120 to 150 stores a year, and that figure may be modest. Vice chairman Jack Shewmaker termed Wal-Mart "aggressive opportunists." He said "We have been telling everyone for years that we're going to slow down expansion, but opportunities continue to present themselves."

According to Salomon Brothers analyst

(Continued on page 75)

Wal-Mart Heads West; K mart Plan Modest

(Continued from page 73)

Jack Seibald, those opportunities will continue to arise. "Given the correction in the stock market in October, there will be a lot of stores in prime locations available for less than the cost of building new stores," he said, adding that Wal-Mart has well saturated its traditional markets and is looking to the future.

Wal-Mart has said that it plans to maintain an aggressive expansion strategy. Likely areas include Florida, Colorado, the upper Midwest, New Mexico, Arizona, the Carolinas, Virginia and Georgia. However, Seibald, who described Wal-Mart's growth pattern as "inkblot-like," is keeping an eye on Ohio and Pennsylvania, two border states with no Wal-Mart stores yet. Through acquisition, New York, Maryland, Delaware and other Eastern states are outside possibilities, Seibald said.

Walter Loeb, an analyst with Morgan Stanley, agreed that Wal-Mart will look at the Northeast, but barring a real bargain basement purchase, he said that he doesn't expect that move until the early 1990s. "The Southwest is its first priority," he said, "and the demographics and type of customer in the region can't be really attractive."

Other Expansion Methods

Another method of expansion is through 220,000-square-foot Hypermart USA outlets, which will be located in the large metro areas the company has had less success in cracking, and its combination grocery/general merchandise Supercenter concept, which could penetrate new markets and replace low-grossing existing Wal-Marts in established markets.

Salomon's Seibald sees the latter, 120,000-square-foot Supercenters, with 40,000 square feet dedicated to groceries, as the stronger growth vehicle, but cautions that results from the two concepts are a year or two away.

In 1987, Wal-Mart added over 20 percent to its retail square footage, with over 14 million square feet introduced. That total included 131 new Wal-Mart stores, bringing the chain to 1,108 units as of late November. "We will continue our strategy of saturation and expansion around the perimeter of our market area," Shewmaker said.

One method Wal-Mart has used is to couple new stores with Sam's Wholesale Club outlets (84 as of year-end with an estimated 20 to 24 scheduled for 1988), effectively doubling the company's impact in medium-sized markets like Madison, Wis., one of the markets where it recently implemented the strategy.

Target, now at 317 stores in 24 states, has taken an almost opposite approach to expansion. Apart from its major Gemco gulp, the company has grown at about 10 percent a year, and will probably maintain or slightly accelerate that rate over the next few years. Target plans to add 150 stores over the next four years.

Target has remained primarily an urban operation, and it raised eyebrows by taking on K mart in the giant's front yard, opening six stores this year in metropolitan areas of Michigan. Like Wal-Mart, Target still has a lot of room to grow, although new markets it enters will almost invariably be heavily populated with stores.

The careful, controlled growth pattern Target has adopted fits its operational capabilities well. The chain lacks the extensive distribution center capability of the other two, so it is concerned with outstripping its ability to supply new stores

K mart doesn't have that problem, but as the only truly national discounter, it has come close to saturating its markets. The result has been a near-zero growth rate, which has jumped a bit as the company has reaccelerated its expansion plans. K mart will open roughly 50 or so stores a year in the future.

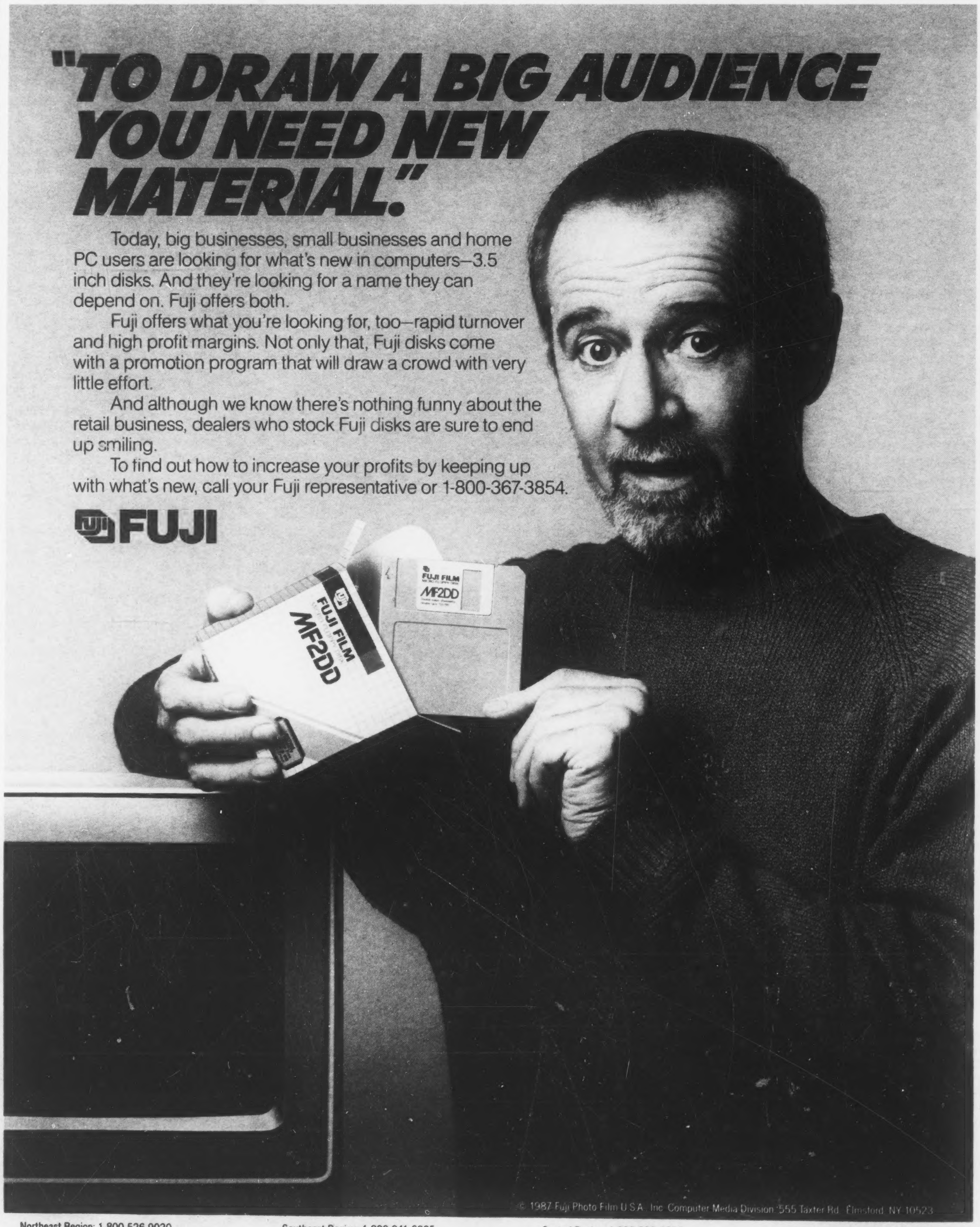
If K mart does expand significantly, it will probably be through new businesses and/or acquisition. The most natural route for expansion—building new stores in rural markets—is probably closed for the near future as the company concentrates on rolling out its satellite communications system chainwide. At a rate of about 50 a month, that Herculean task will be completed in 1990 or 1991, which, if present projections of competitor growth holds true, would be a natural time to look at new rural markets.

However, there's a good chance that if K mart waits that long, it'll find Wal-Mart already open and doing business. Salomon's Siebald noted that a major stumbling block to further K mart expansion is that its stores are not as efficient as Wal-Mart's or Target's. "Growth right now just isn't cost-justified," he said.

K mart's energy and capital seems to be concentrated on increasing store-level profitability. The company expects its new satellite communications system to further that interest, and it is experimenting with new operations and merchandising techniques aimed at bolstering the bottom line.

The most visible results of this orientation are its new apparel-intensive prototype for mid-size stores, which have suffered the most in profitability, and a companywide increase in more profitable apparel and home fashions products in its store mix.

K mart will remodel 140 stores in 1988, up from 130 stores this year, at an estimated cost of about $1 million per unit.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Analysts Predict Continued Strength in Wal-Mart Stock

"Wall Street [still] loves Wal-Mart." That's the message carved into the foreheads of financial analysts, even after the Black Monday stock market crash.

The momentum of this year's 37.5 percent earnings gain should carry it handily through the expected softer economy in 1988, analysts predict—and even a recession—if its experience at picking up market share in the Oil Patch recession is any indicator.

Even K mart's success in moving upscale a couple of notches should work to Wal-Mart's advantage, one analyst said, because it leaves more of the low ground to its Southern cousin.

Although analysts credit K mart for "getting its act together" through repositioning into specialty retailing, tightening management and refurbishing stores, their recommendations generally run no better than a neutral or a weak hold for the short term.

And the stock price of Dayton Hudson Corp., parent of Target, has plunged so radically since Black Monday that analysts say investors might as well hold onto it. In late November, D-H stock was trading at $28.13, or close to book value of about $25 a share. Its precrash high was $63.

D-H Prospects Up

The prospects for D-H are looking up for next year because the operating profits of its problem child, Mervyn's, are expected to show a moderate turnaround. Another plus is that the preopening expense from the 70 stores that Target opened in 1987, including the 50 converted Gemco units, won't be dragging down D-H net next year as it did by 18 cents a share in 1987. Moreover, those new stores will be close to maturing to the profit level expected by Target. Target is scheduled to open 28 units next year.

"Wal-Mart is an awesome competitor," said Donald Trott, analyst for Dean Witter in New York. "I don't see how any discounter can compete against it."

Gross margins, which are declining faster than SG & A expenses, indicate for the first time that Wal-Mart, indeed, is passing along its income tax savings under the 1986 tax law in the form of lower prices, as it said it would, Trott said. The lower prices sharpen its competitive edge even more.

And next year, its income tax rate will decline to 40 percent from 44 percent in 1987, he said.

Other favorable developments include the chain's satellite system, which eventually will permit automatic vendor reordering, with just-in-time inventory deliveries speeding turnover.

Altogether, Wal-Mart should be able to trim its expense to sales ratio by 150 to 200 basis points more next year, Trott predicted. A percentage point consists of 100 basis points.

Its experience in same store sales gains in the Oil Patch successfully tests the theory that discounters should weather a recession better than other retailers, Trott said. In the early stages of that recession, same store sales gains exceeded those for the rest of the chain, Trott said. The gains then slowed to 5 percent to 6 percent from double digit levels but now have increased to 8 percent to 9 percent on their way to resuming double digit growth, Trott said.

Wal-Mart's price-value ratio is so superior that it picked up market share, he said.

When Wal-Mart opens its first hypermarket, in Garland, Tex., after Christmas, it will pick up an enormous amount of media hoopla that will help its stock price, he said, even though it will take years for the hypermarkets to contribute to earnings.

For the near term, Wal-Mart stock will do better than K mart's or D-H's, predicts Fred Wintzer Jr., an analyst for Alex Brown & Sons, Baltimore. In the wake of the market crash, investors are seeking quality. "Wal-Mart has got so much momentum that its earnings growth will continue," Wintzer predicted.

In the South, customers perceive Wal-Mart as running a better store than its competitors, he said.

K mart "has gotten its act together and improved all programs in the '80s, such as moving into higher-margin apparel, upgrading stores and improving informations systems through scanning, he said. But, by moving upscale a couple of notches, it leaves for Wal-Mart a number of its customers who didn't move with it, Wintzer said. "The whole world didn't go upscale."

In moving closer to Target, K mart will hurt Target, which prides itself as the upscale discounter, while helping Wal-Mart, he predicted.

As a stock pick in the retailing group, Wintzer puts Wal-

(Continued on page 93)

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Analysts Predict Wal-Mart Strength

(Continued from page 91)

Mart ahead among the Big Three even though its shares are trading at a premium in terms of its price-earnings ratio. All three were trading in late November in the $27 to $28 range. But the price-earnings ratio for Wal-Mart remains at a lofty 27. In comparison, the ratio for K mart and D-H has settled to today's retail norm of 9.

Because of the positive developments at K mart, coupled with the problems of Mervyn's, Wintzer rates K mart ahead of Target parent D-H as an investment.

Wal-Mart "[is] a finely managed company, probably the best of any retailer," said David Williams, an analyst for Advest in Boston. Net profits will increase to $1.40 per share in 1988, he projects, from an estimated $1.10 in 1987 and 80 cents in 1986.

Dean Witter rates K mart as a hold, said analyst Linda Kristiansen. She projects earnings of $3.35 a share for 1987, compared to $2.84 a share in 1986.

Tightening Hard Lines

In addition to more centralized buying and labor savings from scanning, another positive development for K mart is that it is weeding out less profitable hard lines categories. It slashed hard lines sku's by 7 percent in 1987 and will cut them by 7 percent to 8 percent more in 1987, she said.

Same store sales for K mart discount stores will show a 3 percent increase for 1987, Kristiansen estimated. Including specialty chains such as Builders Square, same store sales will increase 3.4 percent this year, she added.

As a negative, K mart's decision to cut its circulars to one a week from two may boomerang, she said.

E. F. Hutton also rates a hold for K mart. In a research report, analyst Bernard Sosnick acknowledged that "K mart is a better managed company than it was a few years ago," and credited it for improving its merchandising and operations. Nonetheless, Sosnick expressed concern that Wal-Mart is widening the "already yawning gap" between it and K mart in terms of its low ratio between selling, general and administration expenses to sales.

Sosnick said he lacked confidence in K mart's "ability to cope with a slow pace of consumer spending and an intensification of competition from Wal-Mart."

Ed Weller, Montgomery Securities, San Francisco, is neutral on K mart, even though he credits it for such improvements as establishing better controls at its distribution centers and improving their capacity.

But he recommends a buy for Wal-Mart. The growth in same store sales next year will slow to 9 percent from 11 percent in 1987, he predicted. That would still be triple the K mart same store sales increases this year.

D-H would be a "strong buy" in the mid-20's price range, said Mark Witmer, Wessels, Arnold & Henderson, Minneapolis. The Dart group, which attempted a hostile takeover this year, has gone away for good and any other takeover attempt appears remote, he said.

Thanks to the excellent condition of its star, Target, and a moderate turnaround of Mervyn's, D-H earnings should increase to about $3.60 a share in 1988 from $2.50 this year, he predicted, reducing its vulnerability.

Operating profits (pretax, preinterest) for Mervyn's should turn around to $180 million next year after sinking to $140 million in 1987, Witmer estimated.

Target remains in robust shape, even though preopening expenses dragged down operating profits by about $50 million in 1987. Witmer estimated 1987 sales will total $5.2 billion, compared to $4.4 billion in 1986. Same store sales will gain 5 percent.

Target will earn an operating profit this year of $338 million, he predicted, compared to $311 million last year.

"Investors are showing a healthy dose of caution toward retailing stocks," Witmer said. "They've been one of the weakest groups" since July.

But following the massacre Oct. 19, retail issues have experienced less of a loss, relatively speaking, than other groups, the analyst said.

Big Three Statistical Review

Chain	Earning Power*		Leverage		Net Income Percent**	
	1987	1986	1987	1986	1987	1986
Wal-Mart	17.44	16.33	1.80	1.81	3.87	4.04
Dayton Hudson***	10.70	12.20	1.58	1.57	2.84	3.36
K mart	7.67	6.47	2.26	2.47	2.60	1.12

**Margin times turnover*
***Net income as percentage of sales*
****Includes entire Dayton Hudson Corp., not just Target*
Source: The First National Bank of Chicago

Wal-Mart's earnings power (margin times turnover) outstrips that of K mart by more than 2 to 1. Despite massive expansion, it has kept its debt-equity ratio stable, indicating internal funding. Over the year, K mart improved its net income as a percentage of sales more than two-fold. Yet, net income as a percentage of sales for Wal-Mart remains more than a full percentage point higher than for either K mart or Target parent Dayton Hudson.

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We wish to express our sincere appreciation for the privilege of serving you. You have been valued friends and customers.

We enjoyed each other's success and have grown together, offering quality products to your customers.

We look forward to being a part of your bright futures and pledge to do all we can to justify your patronage.

SOUNDESIGN®
Your Customers' Brand Name!

Chains' Themes Vary from Lifestyle to Price

K mart Recognized As 'The Savings Place'

First thing that comes to mind when store name is mentioned

Market	K mart	Wal-Mart	Target
Discount Store	16.5%	23.3%	26.5%
Reasonable/Cheap Prices	32.2	24.3	19.4
Sales/Specials	9.5	6.3	7.4
An Apparel Item	4.5	3.4	5.6
Nice Place to Shop	2.5	3.5	3.9
Logo/Sign/Bull's Eye	1.0	0.4	3.4
Variety/Selection	4.7	4.2	2.1
One of the Other Two Discounters	1.5	3.5	2.0
Department Store	1.4	0.5	2.0
Good Quality	0.5	1.6	1.5
Don't Like It	1.8	1.1	0.5
Junk	1.1	0.7	0

Source: Leo J. Shapiro & Associates/DSN, December 1987

Whether the words are, "The Savings Place," "You'll Never Pay Less," or "Low Prices Everyday," K mart, Target and Wal-Mart are trying to convey the same message: "Buy here."

Low price may be their verbal declaration, but it's not the only statement they make. And their delivery differs markedly.

Target and Wal-Mart concentrate on hammering home their everyday low-price message via in-store signage and limited advertising.

K mart, on the other hand, is an aggressive promoter of special sale savings and lifestyle themes, frequently taking to the airwaves to deliver its message.

Neither Target nor Wal-Mart have undertaken marketing programs approaching the scope of K mart. But, then again, neither are trying to change or refocus their image the way K mart is.

Recently, the discount giant announced that it will cut back on its circular program to bolster its TV ad schedule in 1988. And K mart is the only one of the three to use spokeswomen to deliver the message of price, value, fashion and lifestyle.

Shoppers of all three discounters have apparently gotten the message, none more clearly than K mart's.

Different Findings

Despite *DSN* market basket research in five metropolitan areas that revealed that K mart prices are generally higher than those at Wal-Mart and Target, a recent Leo J. Shapiro survey found that more K mart shoppers associate that discounter with delivering reasonable/cheap prices and sales and specials than its two chief competitors.

When shoppers were asked what was the first thing to come to mind when each store name was mentioned, one-third of K mart's shoppers said reasonable/cheap prices compared to less than 25 percent of Wal-Mart shoppers and one-fifth of Target's customers.

The market basket research showed Wal-Mart's prices are the lowest of the three overall.

More Wal-Mart shoppers said reasonable/cheap prices come to mind when they think of Wal-Mart than anything else but only slightly more than the generic association of the store being a "discount store."

Target shoppers associated the upscale discounter more as a "discount store" than with any other attribute. A little more than one-quarter of Target shoppers said the first thing that comes to mind when they think of Target is that it is a discount store, compared to 23 percent for Wal-Mart and 16.5 percent for K mart.

K mart's low-price image among consumers, despite its higher prices, may be testament to its highly visible marketing and advertising programs, which pound its message as a deliverer of low-cost, high-quality merchandise with fashion and lifestyle themes.

Last month, K mart kicked off its new marketing program for its Home Fashions Division. The campaign, which introduces Martha Stewart, an author and columnist on home entertaining, will cost about $15 million in the first year.

Through Stewart, K mart hopes to drive home the message that tasteful, even elegant entertaining does not have to be costly to be nice or good, and that all these ingredients can be found at K mart.

K mart is looking to further "develop and reinforce a very strong image of the complete store," said Michael Wellman, vice president, marketing.

K mart is doing this now through a variety of programs, the most popular of which has been Jaclyn Smith, spokeswoman for the Jaclyn Smith Signature Collection in apparel.

The discounter is also seeking visibility through sponsorship of the Greater Greensboro Open, now known as the K mart Greater Greensboro Open, the Pro Golfers Association's oldest tournament. The desire here is to help customers associate K mart sporting goods with the quality merchandise used at a professional golf tournament.

And the company's sponsorship of the U.S. Hockey team during the Winter Olympics in February and its retail sponsorship of the Summer Olympics in Seoul, Korea, next summer, should help the discounter be viewed by Americans as a supporter of amateur sports and American athletes, both positive messages.

The Martha Stewart program, introduced to TV audiences in 11 markets—Chicago, Philadelphia, Detroit, Atlanta, Kansas City, Indianapolis, Denver, St. Paul/Minneapolis, Dallas/Fort Worth, Tampa/St. Petersburg and Seattle/Tacoma—on Nov. 9, will be seen by the rest of the country during the Olympics in February.

The TV message informs consumers that Martha Stewart has entertained all kinds of people, from her neighbors to royalty, and now is ready to assist 77 million people, the number of people who visit a K mart store every year, with their home entertaining hurdles.

Wal-Mart and Target do not approach their marketing in the same aggressive way. They have no celebrity spokespeople and sponsor no national events with which their names are associated.

Instead, these retailers concentrate more on delivering their everyday lowest-price message directly to their customers through print ads, particularly circulars. Target, however, does a lot more print advertising than Wal-Mart and uses television, albeit moderately.

In fact, recently, Wal-Mart released a 36-page circular that included no special prices, just the company's everyday low prices.

Jack Shewmaker, vice chairman and chief financial officer, Wal-Mart, said the company tried the circular with "a little bit of trepidation" but reported the results were positive. "Our everyday low price strategies have been employed for so long and are so strong now that customers said this was just a shopping reminder."

But it's not the only shopping reminder Wal-Mart gives its customers. A recent Wal-Mart circular expressed the company's everyday low price strategy in a full page statement on the back of the front cover.

The page contained a message telling customers not to be "fooled" by other retailers' frequent circulars and sale prices. It instructed them to check everyday prices, and "you'll find you may be paying too much."

Wal-Mart's "philosophy," the statement said, "is to offer you the best price possible, day-in and day-out, not just during a sale. We advertise on a very limited basis to keep our expenses as low as possible and pass the savings on to you."

This kind of marketing to the customer has proved very successful and will be continued, according to a Wal-Mart insider, who asked not to be named. No changes are expected, not even as the chain continues to expand into larger markets.

Wal-Mart's marketing is rooted in the belief that once customers become acquainted with the discounter, its pricing structure, employees and Buy American program, they'll chose Wal-Mart. It's cocky but simple.

Target's marketing program is slightly different. It is geared more to promoting quality goods at a fair price with service, commented Alan Brass, broker with Dain Bosworth, a Minneapolis securities house.

He noted that the keynote to the program is demographics. Target searches for store locations favorable to its demographic profile and high-traffic needs, and locates a store there so it doesn't have to aggressively search for its customer base. It advertises, especially at first, and then uses its circulars and limited TV flights to "remind" customers of their presence in the market.

The hallmark division of Dayton-Hudson utilizes a more subtle marketing approach to reach its customers, more in keeping with its department store parent. It focuses attention on everyday value, high quality goods, presentation and private label goods to draw customers.

K mart Plans to Cut Circulars, Increase TV, Image Advertising

Of the Big Three discount chains, K mart is by far the biggest spender in all areas of advertising.

And next year, the Troy, Mich.-based discounter plans to increase its television and image advertising by allocating funds saved from producing fewer circulars.

However, while K mart is cutting back on its circular advertising from twice weekly to once weekly next year, it is by no means becoming less aggressive in product and price advertising.

K mart will continue to run its weekly sales, matching the effort of Target's weekly assault. Both produce more circulars than Wal-Mart, which issues only one per month. And, that once-per-month circular features everyday low prices rather than item and price advertising.

While Wal-Mart pounds home its everyday low price message, K mart is pursuing a different image as a contemporary retailer of fashionable, quality merchandise at reasonable prices. The chain just recently kicked off its Martha Stewart (nationally recognized expert on food and entertaining) campaign in November on television and print in *People*, *Vogue* and *Family Circle*.

K mart spent $21.4 million on television advertising for the first nine months of 1987, a 12 percent decrease from the comparable period in 1986, according to figures just released by the Television Bureau of Advertising (TvB).

Wal-Mart, on the other hand, has increased its total TV spending so far this year by 10 percent, while Target has increased its to-

(Continued on page 97)

K mart to Cut Circulars to Increase TV, Image Advertising

(Continued from page 95)

tal TV spending by just 1 percent.

Still, K mart spent more on total TV advertising than the other two chains and is the only one of the three to use network television.

However, network television seems to be losing importance for K mart, according to these figures, while spot TV is gaining more of the discounter's attention, a possible response to Wal-Mart gaining more of a stronghold in competing markets.

K mart spent only $8.6 million on network spots during the first nine months of 1987 compared to $15.3 million spent during the same period in 1986. On spot TV, it increased spending to $12.7 million during this period from $8.9 million last year.

Wal-Mart spent much more on spot TV than K mart or Target did during the first nine months of both 1986 ($15.8 million) and 1987 ($17.4 million), Target only spent $6.63 million during the first nine months of 1987 and $6.57 million a year ago.

Advertises in Small Towns

While figures indicate that K mart placed more emphasis on spot rather than network TV, the opposite is true in radio. This could be due to Wal-Mart's less aggressive—at least on the surface—posture in radio. Wal-Mart tends to advertise in small towns which are not picked up by the radio expenditure report compiled by the Radio Advertising Bureau (RAB).

K mart decreased its spot radio spending by 137 percent to $463,155 from $1.1 million last year. However, K mart, the only network user of the three discounters, increased its radio network spending to $2.4 million during first six months of 1987 from $1.9 million a year ago.

Target, which decreased spot radio spending by 24 percent to $522,000 from $649,000 last year, is still the largest spender in spot radio out of the Big Three discounters.

Slick Promotions

Target is noted for its slick promotions, concentrating mainly on the Sunday circulars and print for item and price advertising supplemented by broadcast.

Target primarily utilizes circulars and run-of-press (ROP) advertising. The chain backs up its promotions by having enough promotional merchandise on hand and easily accessible for three weeks worth of ad items by placing them on pallets in a separate area in the back stockroom.

While Target's newspaper advertising is only a fraction of K mart's, it beats Wal-Mart by a wide margin, according to figures compiled by the Newspaper Advertising Bureau.

K mart bought 1.81 million standard advertising units (sau's) for the first six months of 1987 and 1.81 million sau's in the same period last year.

Target bought 617,765 sau's for the first six months of 1987 while Wal-Mart only bought 7,168 sau's. While Target's ad space decreased by only 2 percent from the 632,477 sau's it bought during the same period in 1986, Wal-Mart's ad space dropped 209 percent from the 22,182 sau's it bought for the same period last year.

One of the reasons Wal-Mart is able to extend low prices to customers everyday is because it spends less than 1 percent of its revenues on advertising, compared to an average of 2 percent for the other discounters, according to a report by New York-based investment firm, Wertheim Schroder & Co. K mart spends almost 3 percent of sales on advertising annually, according to E.F. Hutton, the New York investment firm.

Discount Store Television Advertising
(In Millions)

Chain	Spot TV Jan.-Sept. 1987	Spot TV Jan.-Sept. 1986	Network TV Jan.-Sept. 1987	Network TV Jan.-Sept. 1986	Total TV Jan.-Sept. 1987	Total TV Jan.-Sept. 1986	Percent Change
K mart	$12.73	$ 8.89	$8.65	$15.34	$21.38	$24.24	(12%)
Wal-Mart	17.45	15.83	—	—	17.45	15.83	10
Target	6.63	6.57	—	—	6.63	6.57	1

Source: Television Bureau of Advertising/Broadcast Advertisers Reports

Each chain published a special circular commemorating its 25th anniversary. Wal-Mart ran a 36-page, full color circular for the month of October, while Target had a 32-page full color 25th birthday sale circular running the week of Oct. 25 to Oct. 31. K mart's 25th anniversary circular was eight oversized tabloid pages done in silver border running from March 1 to March 3.

Almost half of Wal-Mart's and Target's circulars were devoted to apparel while K mart did not highlight the category until the last two pages of the circular. Wal-Mart spent a number of pages on toys while Target and K mart concentrated more on housewares.

Venture

To our valued resources...

Our policy concerning gifts:

We would like to take this opportunity to restate our policy concerning gift-giving. This policy applies not only during the upcoming holiday season, but all year long, on any occasion.

Despite well-meaning intentions on the part of the donor, gifts of any kind are a violation of Venture policy.

For the mutual protection of our resources, our Associates, and our Customers, we, as a policy, prohibit our Associates from accepting gifts, gratuities, payments or favors of any kind. Any gifts received by a Venture Associate will be returned to the donor, or donated to a charitable organization.

Our Associates are fully aware that violation of this policy is considered a very serious matter. We call upon you to assist us, and our Associates, by refraining from giving or offering such gifts.

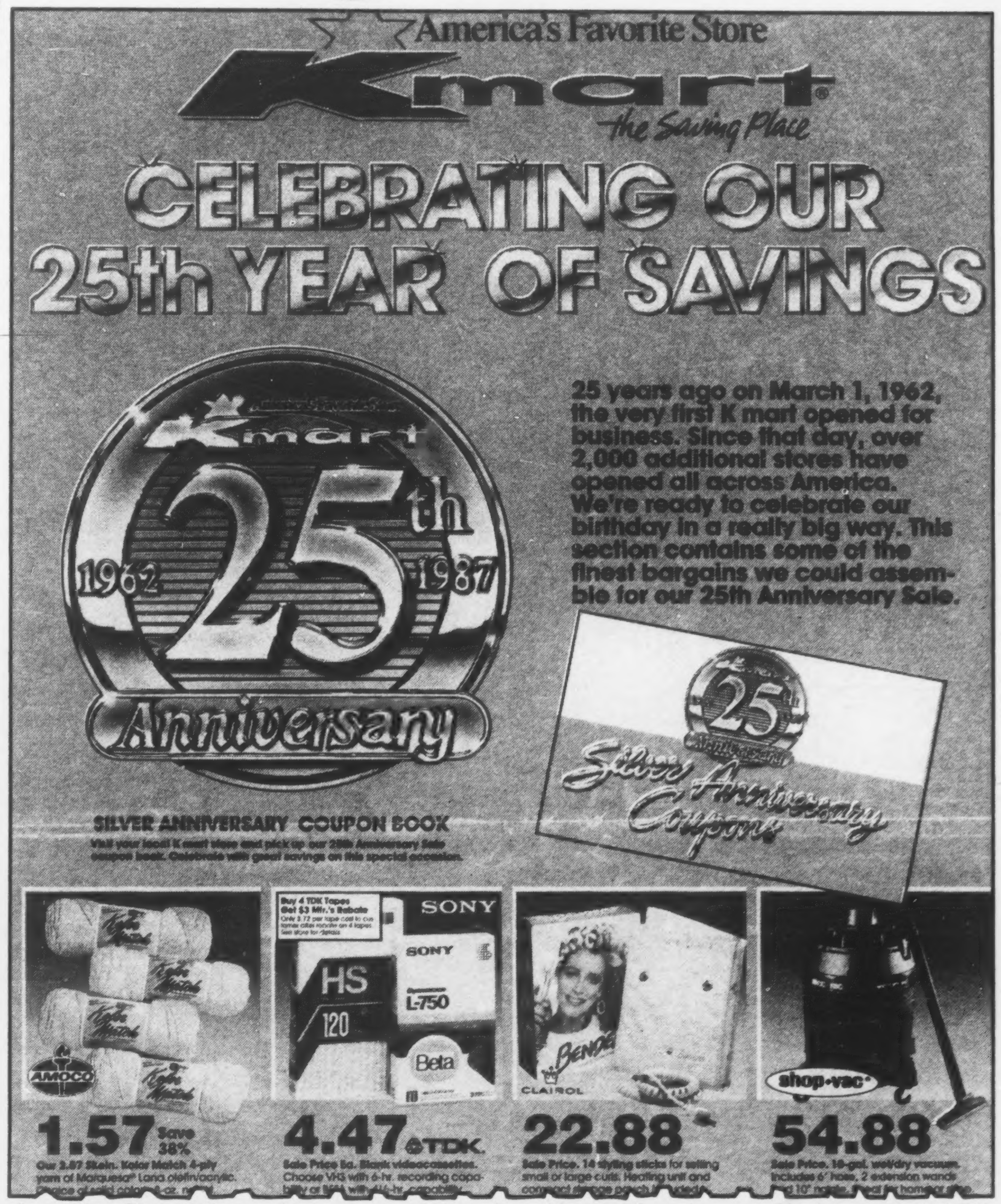
Your awareness of this policy, and your cooperation in enforcing this policy, will help to foster the continuation of a close business association.

We would also like to take this opportunity to thank you for your contributions to the success of Venture this year. Best wishes for a happy holiday season, and a prosperous New Year.

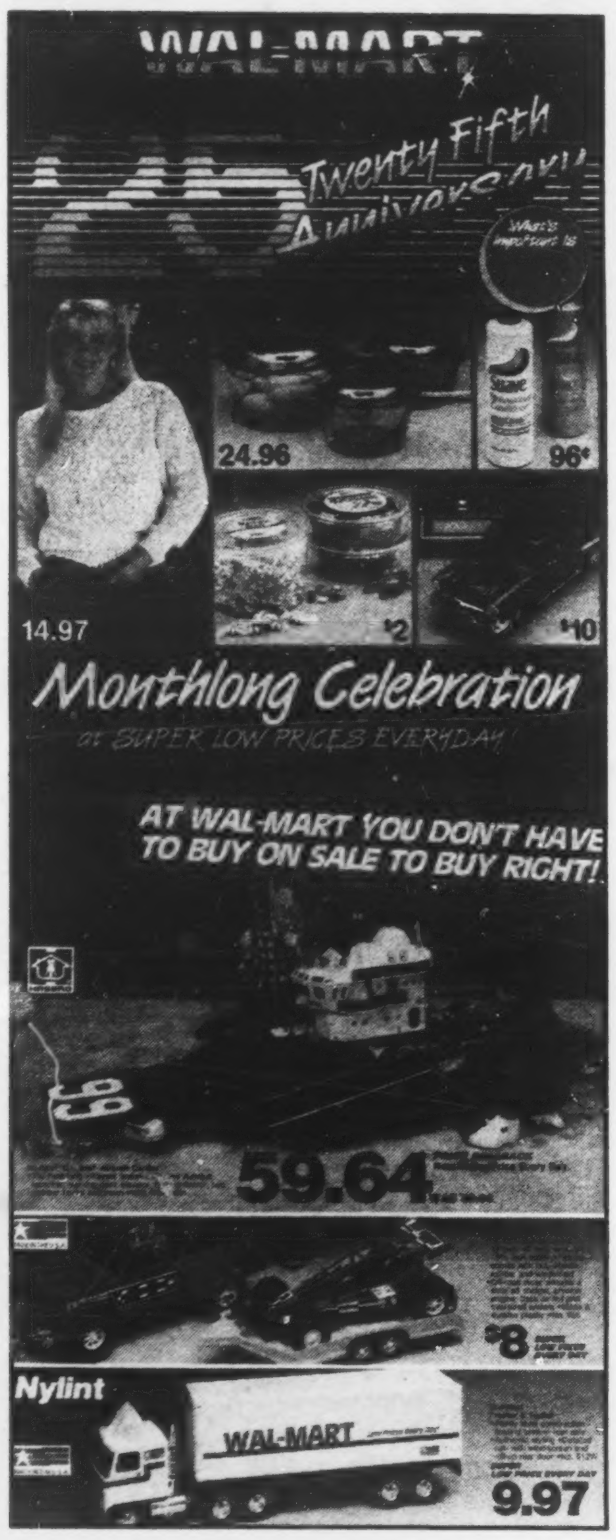
Philip Otto
Philip Otto
Chairman

Julian Seeherman
Julian Seeherman
President, Chief Executive Officer

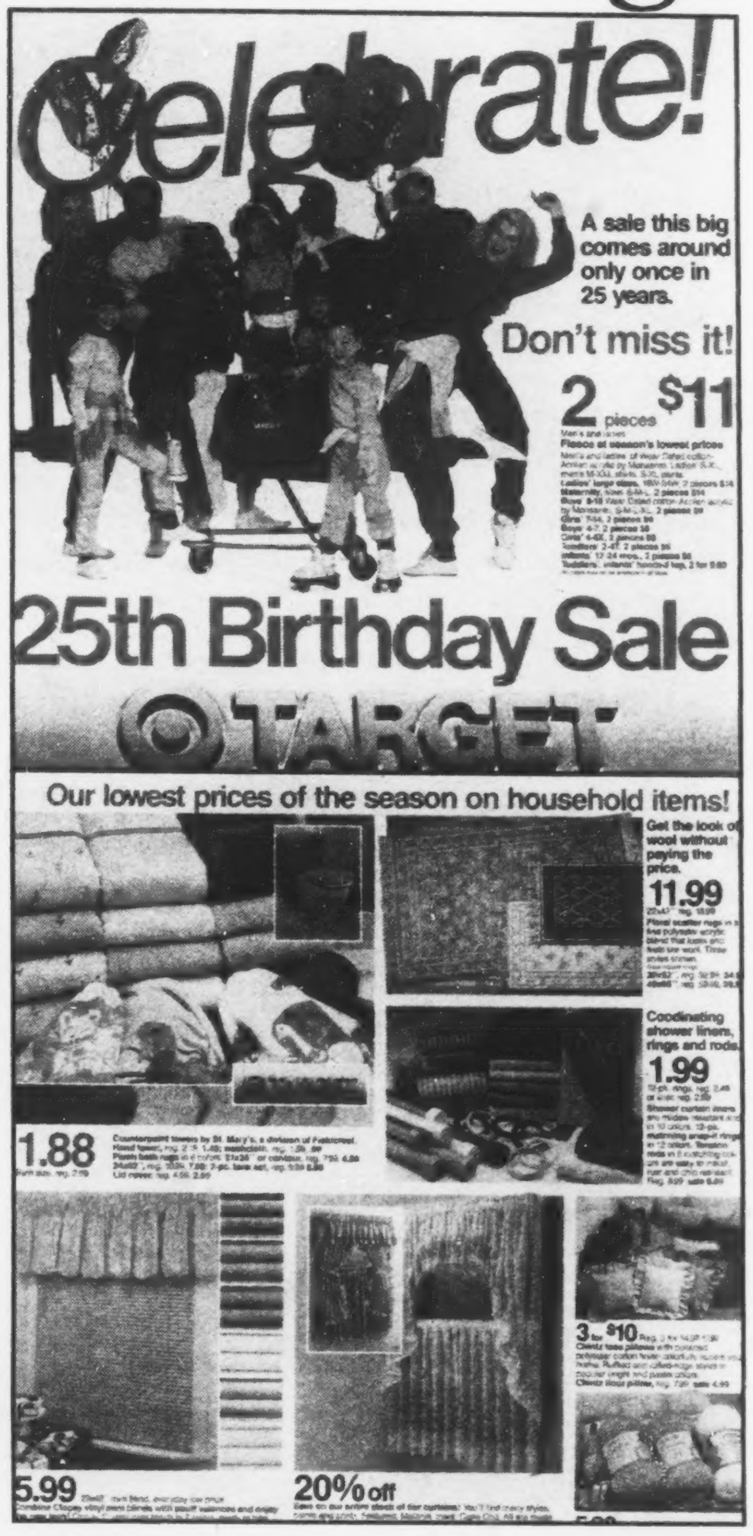
The Big Three Celebrate 25 Years of Savings


America's Favorite Store
K mart
the Saving Place
CELEBRATING OUR 25th YEAR OF SAVINGS
25th Anniversary 1962 1987
25 years ago on March 1, 1962, the very first K mart opened for business. Since that day, over 2,000 additional stores have opened all across America. We're ready to celebrate our birthday in a really big way. This section contains some of the finest bargains we could assemble for our 25th Anniversary Sale.
SILVER ANNIVERSARY COUPON BOOK
Silver Anniversary Coupons
1.57 Save 38%
4.47 TDK
22.88
54.88

As part of its 25th anniversary celebration, K mart has been offering special Silver Anniversary coupon books good for savings on selected items.


WAL-MART
Twenty Fifth Anniversary
24.96
96¢
14.97
Monthlong Celebration
AT SUPER LOW PRICES EVERYDAY
AT WAL-MART YOU DON'T HAVE TO BUY ON SALE TO BUY RIGHT!
59.64
Nylint
WAL-MART
9.97

In keeping with company philosophy, Wal-Mart unveiled a 25th anniversary circular featuring everyday prices.


Celebrate!
A sale this big comes around only once in 25 years.
Don't miss it!
2 pieces $11
25th Birthday Sale
TARGET
Our lowest prices of the season on household items!
11.99
1.99
1.88
5.99
20% off

Target waited almost until year-end to unveil its 25th Birthday Sale circular, noting 'A sale this big comes around only once in 25 years.'

Today's 'Average' Discount Shopper Same as Yesterday's

Whether they're called "yuppies," "baby boomers" or "couch potatoes," today's consumers are really not much different from shoppers of yesteryear. They are the middle class consumers who are the focus of the major portion of discount store marketing efforts.

Although experts have wagged their fingers at the "shrinking middle class," and warned general merchandise retailers that their basic customer base is shifting away from them, research conducted for *DSN* shows that today's K mart, Wal-Mart and Target shoppers don't appear to be very different than they were 10, 20 or 25 years ago.

In fact, according to Michael Wellman, vice president, marketing, K mart, the fundamental characteristics that draw large groups of "average" American shoppers into discount stores haven't really changed at all.

Take, for example, couch potatoes, said Wellman. In a recent interview with *DSN*, Wellman pointed out that "Everyone has been watching television for hours on end with their kids ever since they've been having kids.

"My point is, the fundamental issues aren't much different in the future than they are now, because the basis upon which you're successful still hinges around younger family units as they breed, raise, educate and then put out their children," said Wellman. "It is usually that group of people—with more outgrowth than income, low income family or not—that are price sensitive.

"The only real difference is that the baby boomers are determined to make it appear as though they actually are different from their parents, which of course, they aren't," said Wellman.

Many of the findings in this special 25th anniversary report on K mart, Wal-Mart and Target are based on interviews with 1,808 households across the country, conducted between June and September 1987 by Chicago-based research firm Leo J. Shapiro & Associates. These households comprise a nationally projectable sample of consumer opinion about the nation's Big Three discounters.

The mean household size of these consumers was 2.93 persons, with the largest concentration in the three to four person per household group. K mart shoppers fit the overall profile of the group best, with those heads of household who said they shopped a K mart in the past year reporting a mean of 2.99 persons per household and 40.8 percent of them in the three to four person household category. Wal-Mart and Target customers belonged to larger households. The mean household size of the Wal-Mart customer was 3.20, while the Target customer came from a household mean of 3.16.

Despite K mart's attempts to serve more upper middle income consumers, the discounter attracted the lowest percentage of white collar households, only about 41 percent, compared to Wal-Mart's 45.4 percent and Target's 49.8 percent.

The gap between K mart and the other two is exacerbated when comparing heavy shoppers of those chains. K mart does attract the oldest customers—the mean age of K mart shoppers was 43.4 years—as well as the largest percent of 60 and over shoppers. K mart's heavy shoppers are more blue collar and have a lower mean income than heavy shoppers at the other two discounters.

Of the three chains, Target shoppers were slightly younger, better educated, with more professional jobs and higher incomes. While this may be due to the greater concentration of Target stores in larger metropolitan areas than the other chains, it also reflects inroads the chain has made with a demographic group which the other two chains—especially K mart—clearly covet.

Demographic Characteristics of Past-Year Shoppers At K mart, Wal-Mart and Target

	K mart	Heavy Shoppers*	Wal-Mart	Heavy Shoppers*	Target	Heavy Shoppers*
Mean Size of Household	2.99	3.18	3.20	3.40	3.16	3.40
Chief Breadwinner						
White Collar	40.9%	40.9%	54.4%	51.0%	49.8%	58.8%
Blue Collar	30.0%	32.5%	30.8%	30.9%	27.6%	27.2%
Mean Family Income (000s)	$29.1	$28.6	$29.6	$30.7	$32.0	$34.9
Education						
High School Graduate	36.7%	41.1%	38.8%	39.3%	34.2%	34.0%
Some College, College or Post-Graduate	49.5%	47.2%	46.9%	47.7%	53.3%	59.2%
Age						
Under 30	23.8%	21.5%	22.6%	21.2%	23.6%	20.2%
30 to 44	33.8%	39.9%	36.3%	39.8%	37.0%	47.8%
45 to 59	19.7%	21.9%	21.2%	24.9%	20.4%	21.2%
60 and over	21.6%	16.3%	18.7%	14.1%	18.3%	10.3%
Mean Age (years)	43.3	42.1	42.5	41.5	41.9	39.9
Race						
White	90.1%	89.1%	91.6%	93.6%	87.6%	86.8%
Black	6.9%	8.4%	6.5%	4.3%	7.4%	8.0%
Hispanic	2.2%	1.8%	1.8%	2.1%	4.8%	4.7%

**Heavy shoppers: shoppers who spend $150 or more per year at that discount store*

Source: Leo J. Shapiro & Associates/DSN, December 1987

K mart/Wal-Mart/Target Market Studies

Wal-Mart, Target Muscling In on K mart

Essential to understanding the future thrust of the nation's three largest discounters is a look at how these chains currently perform in the market areas where they are located.

K mart has achieved a geographic coverage of the U.S. that surpasses that of Sears, the world's largest retailer. K mart, which calls itself "America's favorite store," has become America's "most familiar store," according to the findings of a survey conducted for *DSN* by Leo J. Shapiro & Associates, Chicago.

Eighty-four percent of U.S. households say there is a K mart store in their area. Furthermore, K mart's penetration is as strong in large cities as it is in rural towns. Nearly three-quarters (72 percent) of residents living in metropolitan areas of 1 million or more say K mart is in their area. In smaller metro areas (with populations from 50,000 to 1 million), 95 percent of households say there is a K mart near them. And, in non-metropolitan or rural areas, 90 percent of households report a nearby K mart.

Wal-Mart's strength clearly lies in small-town America. More than one-half of survey respondents who live in non-metro, rural areas said there is a Wal-Mart store in their area. But, in big city markets of 1 million or more inhabitants, only 14.1 percent said there is a Wal-Mart nearby.

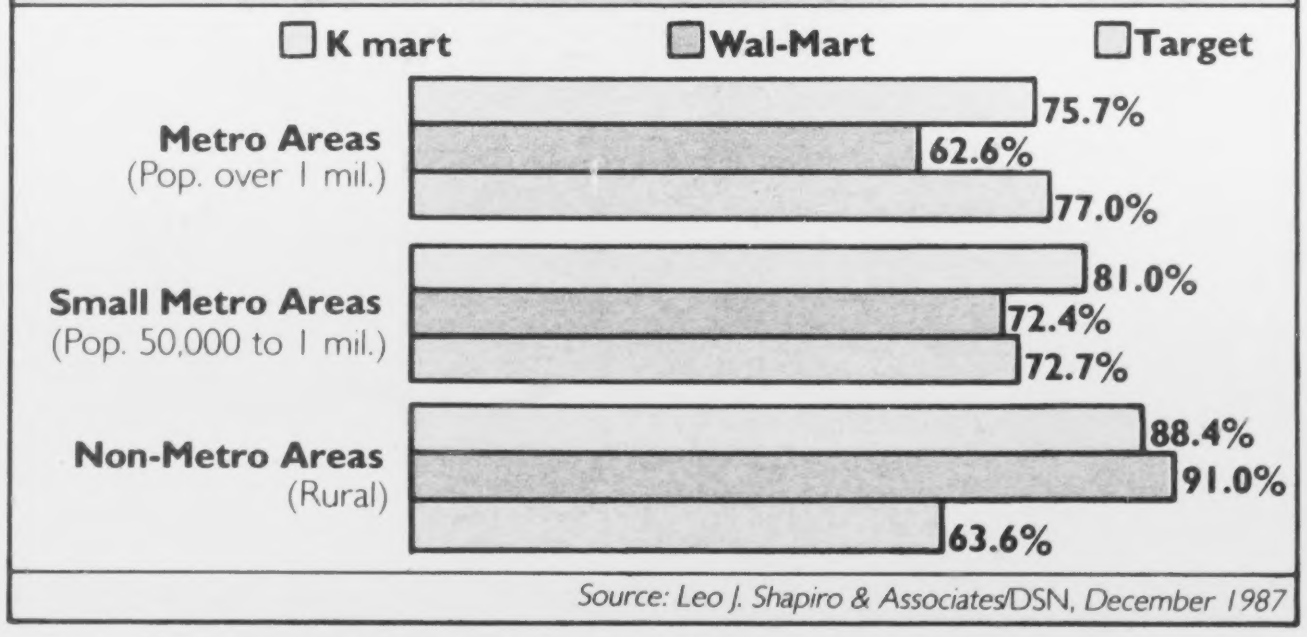
Target, on the other hand, is strongest among big city and smaller metropolitan area households, which combined represent approximately 75 percent of the U.S. population. In these areas, Target has a presence in one-third of big city markets and in nearly 30 percent of small metro markets. But, in non-metro markets, only 16.1 percent of the households said there is a Target nearby.

Although Wal-Mart and Target have grown in vastly different geographic environments, both are trying to master markets beyond their forte. At the same time, neither have exhausted the growth possibilities in their traditional markets.

Target has store coverage among 51 percent of all U.S. households in major metro areas, or in areas representing roughly 50 percent of the U.S. population. K mart has store coverage among 36 percent of U.S. households in major metro areas, while Wal-Mart only reaches about 21 percent of big city shoppers.

All Three Chains Are Magnets For Discount Store Shoppers

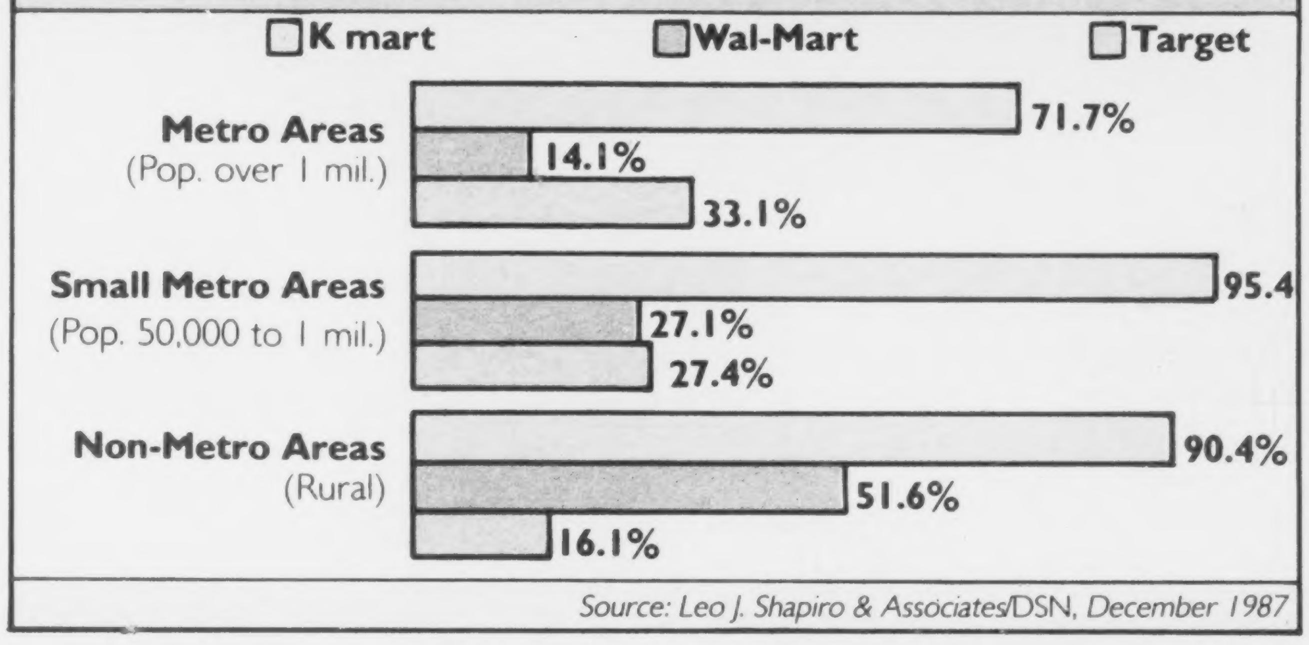
Percent of households that shopped the store in their area during the past year



Source: Leo J. Shapiro & Associates/DSN, December 1987

Both Wal-Mart and Target Have Room To Grow in Their Traditional Markets

Percent of U.S. households with a big three discounter in their area



Source: Leo J. Shapiro & Associates/DSN, December 1987

In big metro areas, shoppers travel further to get to Wal-Mart stores. For example, Wal-Mart's retail facilities in cities like St. Louis and Dallas tend to be on the outskirts of the metro area. On average, shoppers must travel eight minutes further to a Wal-Mart than to a K mart or Target (21 minutes vs. 13 minutes) in big city markets. Big metro area shoppers also tend to spend less at Wal-Mart, just $161 per year median, compared to $123 at K mart and $202 at Target.

In small metro areas of 50,000 to 1 million residents, K mart covers 38 percent of households; Target, 34 percent; and Wal-Mart, 33 percent. About 28 percent of the nation's households live in small metro areas.

In non-metro/rural markets, where about 24 percent of the U.S. population lives, Wal-Mart has coverage of 46 percent of the households. K mart covers 27 percent of this relatively small segment. Target stores are available to only 15 percent of rural households.

DSN editors traveled to five cities where the Big Three lock horns. They observed, photographed and conducted price comparisons to analyze the strengths, weaknesses and strategies of the three discounters.

- In St. Louis, Wal-Mart is poised for a major assault with five to eight new discount stores, two Sam's Wholesale Clubs, three dot discount drug stores and a hypermarket. K mart, with 22 stores already, is pursuing new sites, and Target has six stores. All three are breathing down the neck of hometown Venture.

A market basket of 65 of the same or similar items sold by all three chains in mid-October revealed Wal-Mart to be the daily low price leader by a small margin over Target.

- All three chains have a commanding presence in Dallas. K mart has 32 stores. Wal-Mart weighs in with 15 discount stores, plus two Sam's Wholesale Clubs and a hypermarket on the way. Target matches Wal-Mart's store count with 15 outlets.

Wal-Mart was clearly the lowballer in Dallas. Of the 30 products carried by all three, Wal-Mart was the lowest priced on 60 percent of the items. K mart was the lowest on one-third, and Target the lowest on about 25 percent of the items.

- K mart, Wal-Mart and Target have carved their niche between two economic extremes in Memphis, serving consumers on the fringes of affluent communities but still accessible to an impoverished center city. K mart operates seven discount stores in Memphis, while Target and Wal-Mart each have four.

Wal-Mart had the lowest price on 58 percent of the total market basket, but on total price, Target's market basket of products rang up to a lower total. Target was priced lowest on only 28 percent of the market basket, but the savings on these items was more pronounced than at Wal-Mart.

- K mart opened its first Wichita, Kan., store in 1967, and now has four units; Target, which landed there in 1980, has two stores; and Wal-Mart, the newcomer with its first store just opened in August, has two more stores on the drawing board.

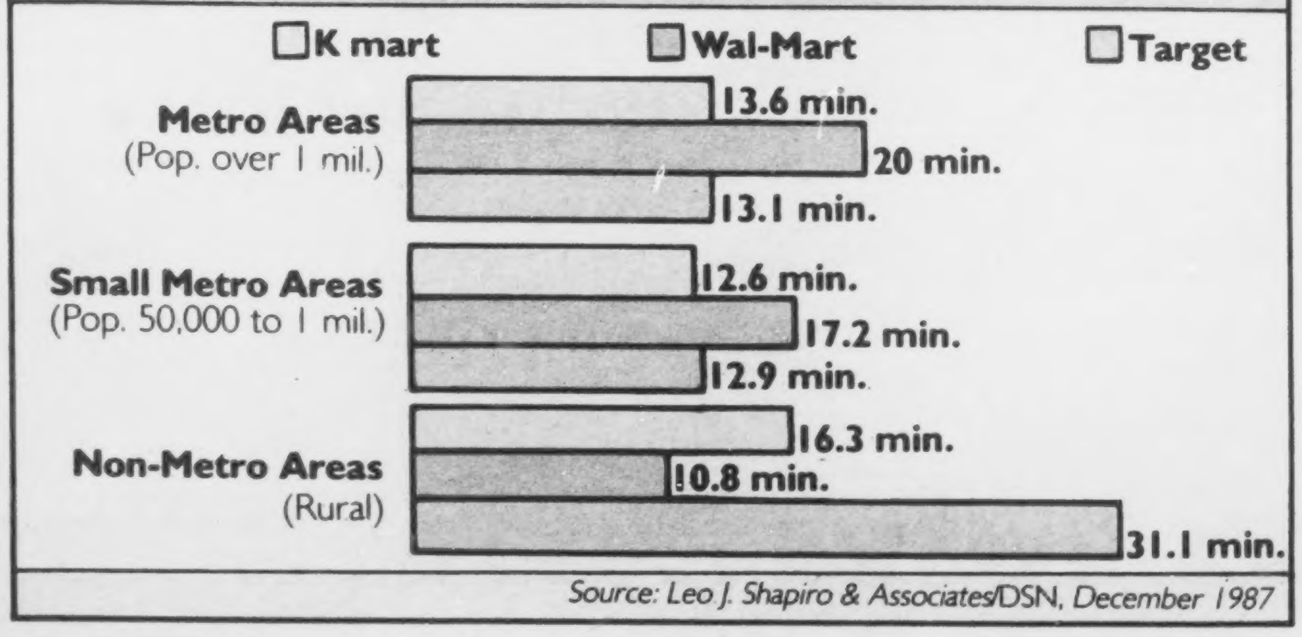
The *DSN* market basket in Wichita showed Wal-Mart with the lowest price on 61.8 percent of the products carried by all three chains. K mart was lowest on 36.8 percent, and Target had the lowest price on only 23.5 percent of the items.

- Local sources say Target dominates the Austin discount market, even though K mart operates four stores, compared to two for Target. A Wal-Mart, located 15 miles from Austin in a booming R & D area, and a Sam's Wholesale Club round out the discount competition.

Despite the upscale image of Target, its pricing fell in the middle in the market basket survey. K mart was highest, while Wal-Mart was lowest.

Big Metro Area Shoppers Travel Further to Wal-Mart

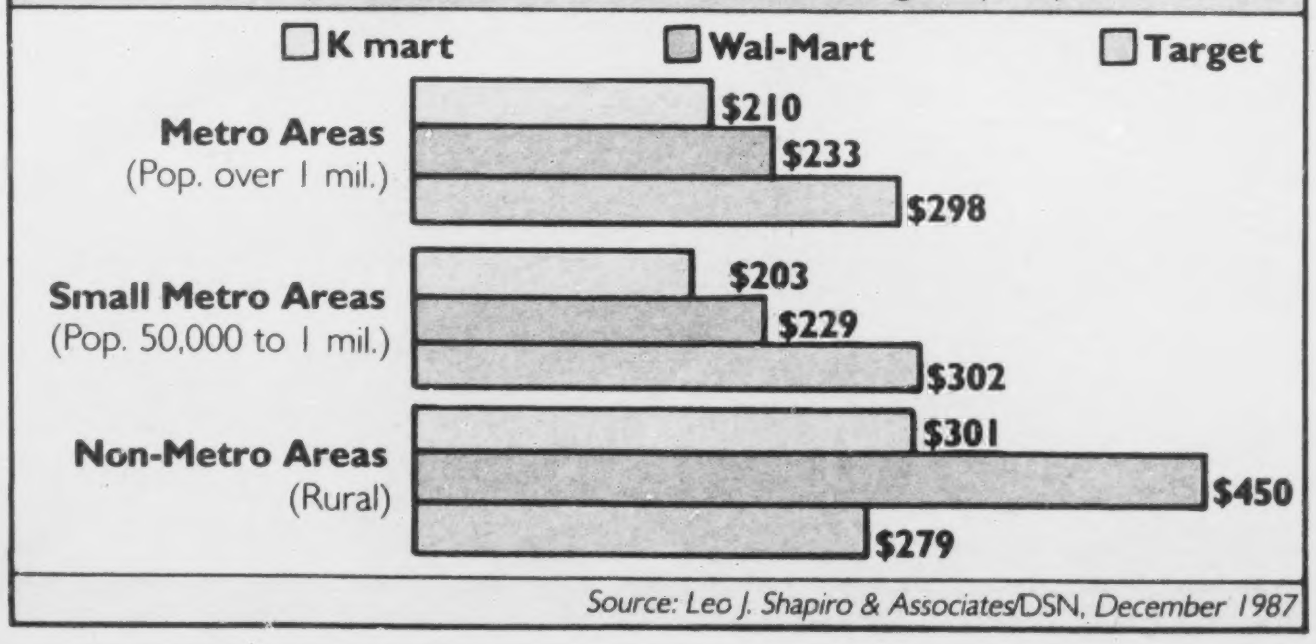
Mean minutes travel time to nearest store



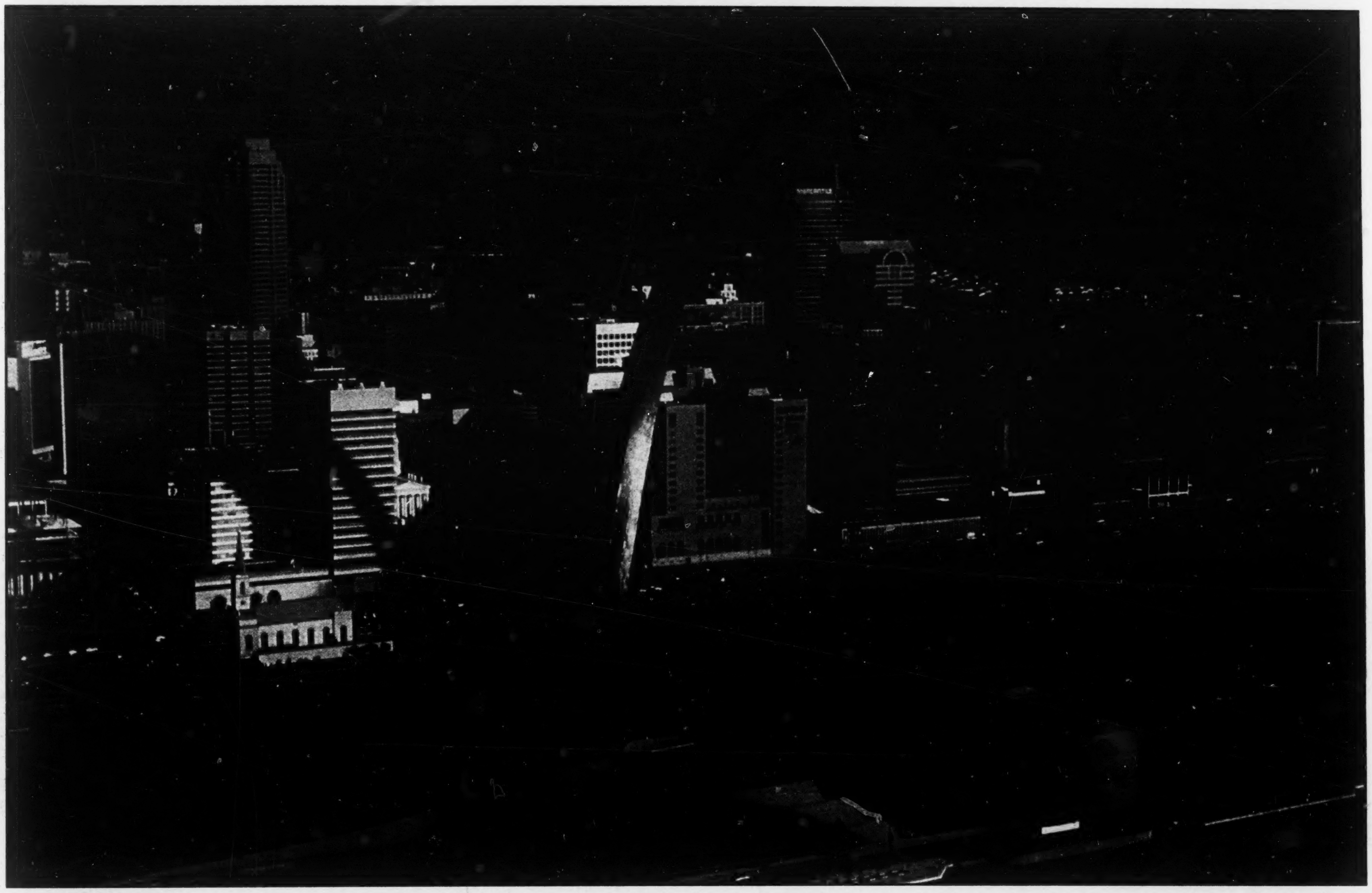
Source: Leo J. Shapiro & Associates/DSN, December 1987

But Big Metro Area Shoppers Spend Less at Wal-Mart

Mean dollars spent at store in their area during the past year



Source: Leo J. Shapiro & Associates/DSN, December 1987



A city of 2.4 million people spread over 10 counties in two states separated by the Mississippi River, St. Louis is commonly known as the city with the Gateway Arch.

St. Louis Braces for Wal-Mart's Invasion

ST. LOUIS — Wal-Mart is making a major assault on this 10-county market.

Within the coming year, the dynamic discounter will open between five and eight new Wal-Mart stores, at least two Sam's Wholesale Clubs, three dot drug stores and its Hypermart USA format.

Recently, Wal-Mart opened three dot stores here and already has two Sam's locations and 11 Wal-Mart discount stores.

Other chains have also targeted St. Louis for growth. Several months ago, Best Buy, the consumer electronics specialty retailer, entered the market with three stores and promises to have seven in the area within three years. Locally-based Grandpa Pigeon's, with seven stores, one of which just opened, will add one more store next year and another in 1989, said president Tom Holley.

And although K mart has not yet identified any new store sites in St. Louis, where it already has 22 discount stores, it is looking for additional sites. Last spring, K mart gave up two stores for its Builders Square home center division, which also is expanding in this market.

Venture, based in nearby O'Fallon, Mo., will add one store next year to the 16 sites it already operates.

And Syms, an off-price apparel retailer, just entered the market.

"St. Louis has been on the go lately," observed Rex Sims, advertising manager for the *St. Louis Post-Dispatch*, a local newspaper.

Until two years ago, the area had been experiencing negative population growth, a lingering byproduct of economic decline during the 1970s. But all that has reversed itself due to greater corporate interests in this Midwestern city and renewed migration to the area, local experts explained. Now, St. Louis' economic foundation more closely resembles the nation's, growing modestly but steadily every year.

Ranked by *Sales & Marketing Management* in its 1987 Survey of Buying Power as the 11th most populous city in the country, St. Louis has a population of 2.45 million, up 1.6 percent from 1985, and a suburban population of 1.8 million, up 5.8 percent, earning it a ranking of ninth in the country.

Its residents, with a median age of 32, are scattered along a 10-county region in two states—Missouri and Illinois—bisected by the Mississippi River.

Population and business expansion is mostly to the west and north of St. Louis proper where the socio-economic base is diverse.

St. Louis is widely known as home of the famous 630-foot Gateway Arch located on the banks of the Mississippi River. But it is also the home of 10 Fortune 500 companies, six Fortune 100 firms, and produces more American-made automobiles than any other U.S. city with the obvious exception of Detroit.

Anheuser Busch, the nation's largest brewery, has its U.S. and world headquarters here, as does Ralston-Purina. Four universities are located here.

McDonnell-Douglas is the largest employer in this region, employing 40,000 people, followed by May Department Stores, parent company of Venture Stores, which is also based here, Southwestern Bell and Monsanto, according to the St. Louis Regional Commerce & Growth Association.

Currently, St. Louis' population is split almost evenly between professional and nonprofessional workers. The growth, however, appears to be more on the professional side now that the region is attracting more high-tech industries and manufacturing becomes more automated, observed Stephen Taylor, research manager at the chamber of commerce.

Many of these businesses are lured to the area by relatively inexpensive land costs in comparison to other major metropolitan areas, more than acceptable demographics and very affordable housing costs.

(Continued on page 111)

Challenge for Home-Town Venture

ST. LOUIS — The dominant discounter in this market is locally-based Venture stores, according to consumer research conducted last summer by the *St. Louis Post-Dispatch*.

The survey, which polled 1,601 people in the 10-county metropolitan area, found that more St. Louis-area residents shopped Venture more often than they did other discounters in a three-month period previous to the survey.

But when it comes to actually making a purchase, customers bought more often when they are shopping at Wal-Mart and spent more money at Service Merchandise.

Survey respondents were chosen from throughout the St. Louis market, a two-state statistical area containing 16 Venture stores, 22 K marts, 11 Wal-Marts, six Targets and seven Grandpa Pigeon's plus such other retailers as Best Products, Service Merchandise and Woolworth's.

When survey participants were asked what store they visited in the past 90 days, two-thirds said Venture. K mart was second with nearly as many responses and Target was a close third. Wal-Mart was listed by a little more than one-third of respondents for fourth place, a slim margin over locally-based Grandpa Pigeon's.

But when shoppers were asked if they shopped that store frequently—four or more times in the three-month period—two-thirds of the respondents who said they shop Wal-Mart also said they shop there frequently, the largest percentage of shoppers to answer that way.

K mart shoppers ranked second as frequent shoppers with more than one-half saying they shop K mart frequently.

More than one-half of the shoppers who said they shop Venture said they shop there infrequently, the survey revealed.

When it comes to actually buying merchandise when a shopper is in a discount store, Wal-Mart customers made a purchase nine of 10 times, compared to nearly that much by Grandpa Pigeon shoppers and more than eight of 10 times by K mart customers.

Venture and Woolworth shoppers also made purchases slightly more than eight out of 10 times, and Target customers reported making a purchase slightly fewer than eight out of 10 times. Best and Service Merchandise customers made purchases fewer than

(Continued on page 113)

Wal-Mart provides its St. Louis customers with lower prices on more items than its two rivals, K mart and Target. On a market basket of items in this region, Wal-Mart had the 'lowest' price on 32 items, compared to 26 for Target and 13 for K mart. (DSN photo)

St. Louis:

Wal-Mart Plans Major Assault in Market Area

(Continued from page 109)

A typical 1,800-square-foot new home in this area cost an average of $85,030 during the second quarter of this year, Taylor said.

Last year, the St. Louis region tallied $16.1 billion in retail sales, making it the 13th largest region in this category, according to *S&MM*. These sales reflect an increase of 5 percent over 1985. Per household retail sales were $18,181 last year compared to $17,622 the year before, an increase of 3 percent.

General merchandise store sales in the region were ranked 11th in the nation by *S&MM* with nearly $2.3 billion in receipts, an increase of 4.3 percent over the year before.

St. Louis-area residents have improved their buying power over the last year, too, according to *S&MM*. Effective buying income or EBI, a measure of one's ability to buy, totaled $31.4 billion, up 5.7 percent.

Suburban EBI also rose between the 1986 and 1987 *S&MM* reports, from $23.2 billion to $24.7 billion, and median household EBI rose from $26,667 in 1985 to $27,518 in 1986. Households with EBI's of $50,000 or more surged more than 13 percent to 157,600.

These statistics provide fertile ground for retailers. And for discounters, St. Louis is a very competitive market that is heating up. The three top discounters, K mart, Wal-Mart and Target, all have multiple store locations here as do other top discounters, such as Venture, Marshalls, Service Merchandise and Grandpa Pigeon's. And, they all advertise aggressively.

Wal-Mart's interest in St. Louis has not intimidated its competitors, they say. Instead, Wal-Mart poses a "definite challenge," not just because of the numbers of new stores entering the market but more due to the locations of the new units. Many of the new Wal-Mart stores will get suburban addresses, placing them face-to-face with their competitors instead of on the fringes of other discounters' marketing areas.

Exactly what the effects of this lopsided expansion will be on the local retailing community is still uncertain. But one local retailer said he feels "there will be a shootout and somebody who is really not a force here will not make it. I'm not sure there is enough business for everyone."

As usual, the battleground will be in commodity-type products, such as health & beauty aids and household chemicals.

So far, no one is surrendering to market forces, current or future.

At Grandpa Pigeon's, where the typical customer is a blue-collar male—not predominantly female like its competitors—expansion, however slow, is vital.

"We face encroachment from other retailers. We must grow or be buried," said president Holley, adding that "standing still is dying."

His strength, he feels, is rooted in his customer, who is shopping for hard lines merchandise, not the soft lines products most of his competitors are emphasizing.

In addition, variety and depth of merchandise, which spans most every department except apparel, plus management's proximity to store sites combine to help keep the small company current on market changes and perhaps even provide it with an advantage over the competition with respect to store cleanliness and stocked shelves.

In fact, a recent *DSN* visit to a number of St. Louis-area discount stores revealed numerous out-of-stocks and untagged merchandise, especially at Target, and to a lesser degree at K mart.

In St. Louis, however, the nation's three largest discounters play second fiddle to locally-based Venture stores, according to research conducted last summer by the *St. Louis Post-Dispatch*.

MARKET BASKET: St. Louis, Missouri

Prices on 65 selected products sold at all three chains

Product	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448	$ 26.97	$ 24.58	$ 23.49
Black & Decker 7¼-in. circular saw, No. 7308	31.97	31.96	31.99
Black & Decker Dustbuster, No. 9330	27.87	24.64	22.99
Duracell 9-volt battery, 1-pack	1.99	1.98	1.89
Stanley saw, 26-in., 8-pt., No. 15350	7.97	4.78	7.99
Filler paper, wide-lined, 200-count	0.69	0.63	0.57
Crayola marker, broad, 8-count	2.19	1.96	2.19
Corning Visions 6-piece set, V-300-N	27.66	24.96	28.99
Sunbeam Oskar, No. 14081	57.88	59.68	49.99
Regina 3-speed Electrikbroom vacuum, No. HB7839	39.99	39.43	39.99
Eagle clear juice bottle, 1-qt., E2755	1.05	1.00	1.19
Ekco Bakers Secret 5¼-in by 9¼-in. loaf pan	3.29	2.46	2.49
Rubbermaid twin sink dish drain, No. 1180	4.83	2.96	2.99
Fram oil filter, PH8A	2.99	2.57	2.79
Armor All, 16-oz.	4.99	4.47	4.99
Turtle Super Hard Shell paste, 14-oz, No. T222	3.39	2.97	3.39
Borden Rain Dance paste, 14-oz, No. 0245N	5.49	5.49	5.69
Quaker State Deluxe motor oil, 10W40, 1-qt.	0.99	0.98	0.99
Prestone antifreeze, 1-gal (Prestone II or Advanced)	4.69[1]	3.94[2]	4.89[1]
STP oil Treatment, 15-oz.	1.36	1.38	1.39
WD-40 aerosol, 12-oz.	1.54	1.64	1.89
Ford Motorcraft oil filter, FL400A	2.99	2.93	2.99
Texaco Havoline motor oil supreme, 10W40, 1-qt.	0.99	0.78	0.78
Zero 33 Classic S.C. reel	12.97	12.97	17.99
Wilson football, official size, leather, F1414	16.97	18.97	19.99
Wilson Pro basketball, synthetic leather, No. 1000	11.97	19.97	9.99
Spalding Larry Bird basketball, synthetic leather	29.97	14.93	12.99
Wilson tennis ball, can of 3	1.97	2.18	2.09
Prerecorded videotape, Disney Children's Classic	14.95	9.96	14.99
Compact disc, 10-in., Madonna "Who's That Girl"	17.33	14.77	12.99
Album LP, Whitney Houston	8.77	8.46	8.99
Sorry board game, No. 390	9.94	10.48	10.49
Scrabble, No. 17	8.67	8.53	6.99
Fisher-Price Little People/Little Farm, No. 2501	19.97	18.94	21.96
Fisher-Price Chatter Telephone, No. 0747	7.97	6.48	6.99
Yahtzee, E950	5.47	4.44	4.99
Candyland board game, 4700	6.69	6.58	9.99
Coleco Cabbage Patch Doll, Splashing Kids	29.97	27.86	24.99
Coleco Cabbage Patch Doll, Babies	22.94	19.86	22.99
Ivory conditioner, normal, 15-oz.	1.59	1.65	1.59
Agree conditioner, reg., 15-oz.	2.39	1.94	1.99
EPT pregnancy test kit	14.98	9.84[3]	9.89
Trojan condoms, regular, 12-pack	4.15	2.48	2.39
Tampax tampons, regular, 40-count	2.69	2.77	2.79
Johnson & Johnson baby powder, 14-oz.	2.18	1.96	2.19
Mennen Speed Stick deodorant, reg., 2.5-oz.	1.99	1.86	1.59
Crest tarter control toothpaste, 6.4-oz.	1.59	1.56	1.19
Colgate regular toothpaste, 7-oz.	1.29	1.48	1.29
Listerine, 32-oz.	2.89	2.97	2.89
Dexatrim max. strength capsules, 40-pack	6.97	7.12	7.19
Secret Solid deodorant, 2-oz.	2.49	1.97	1.99
Gillette Foaming shave cream, 11-oz.	1.97	1.67	1.29
Nyquil Nighttime cold medicine, 10-oz.	3.19	4.84	3.09
Gillette blade cartridges, 10-pk.	3.94	3.87	3.94
Alka Seltzer Plus, 36-count	1.79	1.94	1.69
Kodak disc film, twin pack, 150/200, 30-exp.	3.99	4.77	4.19
Polaroid Spectra System	139.99	127.67	139.95
Polaroid Sun 640, 600 film	8.69	8.67	8.99
Polaroid Spectra film pack	8.97	8.67	8.29
Polaroid SX-70 film	8.69	8.67	8.29
Time Zero SX-70 film, twin pack, 20-exp.	15.97	16.58	15.39
Kodak 110 color print film, 12-exp.	2.38	2.07	1.89
Black & Decker ⅜-in. drill, No. 7144	25.97[4]	26.39	22.99
Bic Biro, medium, blue, 10-pk.	1.38	1.34	1.39[5]
Black & white TV, 12-in.	69.00	62.87	57.99
TOTAL MARKET BASKET	**$831.41**	**$771.17**	**$772.30**
Lowest in Market	**13 items**	**32 items**	**26 items**
	18.5%	**49.2%**	**40%**
Highest in Market	**32 items**	**11 items**	**28 items**
	49.2%	**16.9%**	**43.0%**

[1] Advanced formula; [2] Prestone II; [3] EPT Plus; [4] 7143; [5] Bic Stik

Market baskets were conducted in October 1987 in area stores.

Source: DSN *research*

The survey, which polled 1,601 people, found that more St. Louis-area residents shop Venture more often than they do its competition, buy more often when they shop at Wal-Mart but spend more money at Service Merchandise.

When it comes to providing the customer with a good value, Wal-Mart topped the rankings in the *Post-Dispatch* survey (see story, page 109).

Based on an October *DSN* visit to St. Louis, which focused attention on K mart, Wal-Mart and Target, Wal-Mart provided shoppers with lower prices on more items than its two competitors, but only by a small margin.

A market basket of 65 of the same or similar items in nine merchandise categories revealed Wal-Mart's total of $771.17 as the lowest of the three chains—but only by $1.13 over Target.

The same market basket of goods at K mart cost $831.41, or 7.8 percent higher than Wal-Mart and 7.7 percent higher than Target.

Wal-Mart also had more "lowest priced" merchandise of the three in this market, 32 items, compared to 26 for Target and 13 for K mart.

Likewise, K mart had more of the "highest in the market" prices, 32 items, versus Target's 28 and Wal-Mart's 11.

A quick price review of select items at Venture and Grandpa Pigeon's also revealed that Grandpa's prices compete most often with those of Wal-Mart and Target. Venture's prices more closely resemble those of K mart.

In fact, of 25 same or similar items found at K mart, Wal-Mart and Target, Venture was as high or the highest priced on seven items, and the lowest or tied for the lowest on two items.

Home-Town Venture Visited Most Frequently by St. Louis Shoppers

(Continued from page 109)

seven of 10 times when in those stores, the survey said.

But when the customers make a purchase, Service Merchandise rings up the largest ticket, nearly $50, followed by about $45 at Best Buy and just more than $35 at Venture. Wal-Mart customers spent about $30 and slightly less than that was reported by shoppers of K mart, Target and Grandpa Pigeon's.

St. Louis survey respondents said Wal-Mart gives them the best value for their money, with one in four saying so, compared to one in five who answered Venture and roughly one in 10 who said Target, Grandpa's or K mart.

The store with the highest quality merchandise is perceived to be Venture, the survey reported, with roughly one-quarter of the respondents naming the O'Fallon, Mo.-based company. Venture was followed, in order, by Wal-Mart, Target, and K mart, which was tied with Service Merchandise.

With women 35 and under, Venture topped the list again for having the highest quality merchandise, followed by Wal-Mart, Target, Best, Service Merchandise and K mart.

Women over 35 voted similarly, but K mart's standing moved to fourth, switching places with Best.

Grandpa Pigeon's came in last among women shoppers for quality merchandise, but females only comprise 20 percent of the company's customer base.

Venture Tops for Quality

Women shoppers gave top honors to Venture when evaluating quality merchandise.

Shoppers spending less than $500 on women's clothing also gave Venture the top spot for having the highest quality merchandise, followed by Wal-Mart, Target and K mart.

With shoppers spending more than $500 on women's clothing, Venture's first place position strengthened. Wal-Mart fell to third place behind Target.

K mart's position weakened substantially with these shoppers. Its standing fell to fifth behind Service Merchandise, which does not sell apparel.

When it comes to perceived value, women, both 35 and under and 35 and over, gave top honors to Wal-Mart, as did women with annual household incomes exceeding $35,000. But among women with yearly household incomes below $35,000, Venture was perceived to offer the best value for their money in St. Louis.

Venture also took the top spot for perceived value among shoppers spending more than $500 on women's clothing, but came in second to Wal-Mart among shoppers spending less than $500 on women's clothing.

Like most markets, St. Louis shoppers also "cross-shop" other discounters.

For example, the two-thirds of the shoppers who said they shop at Venture also said they shopped at K mart and Target. And three-quarters of the surveyed K mart shoppers said they shopped Venture and more than half, Target.

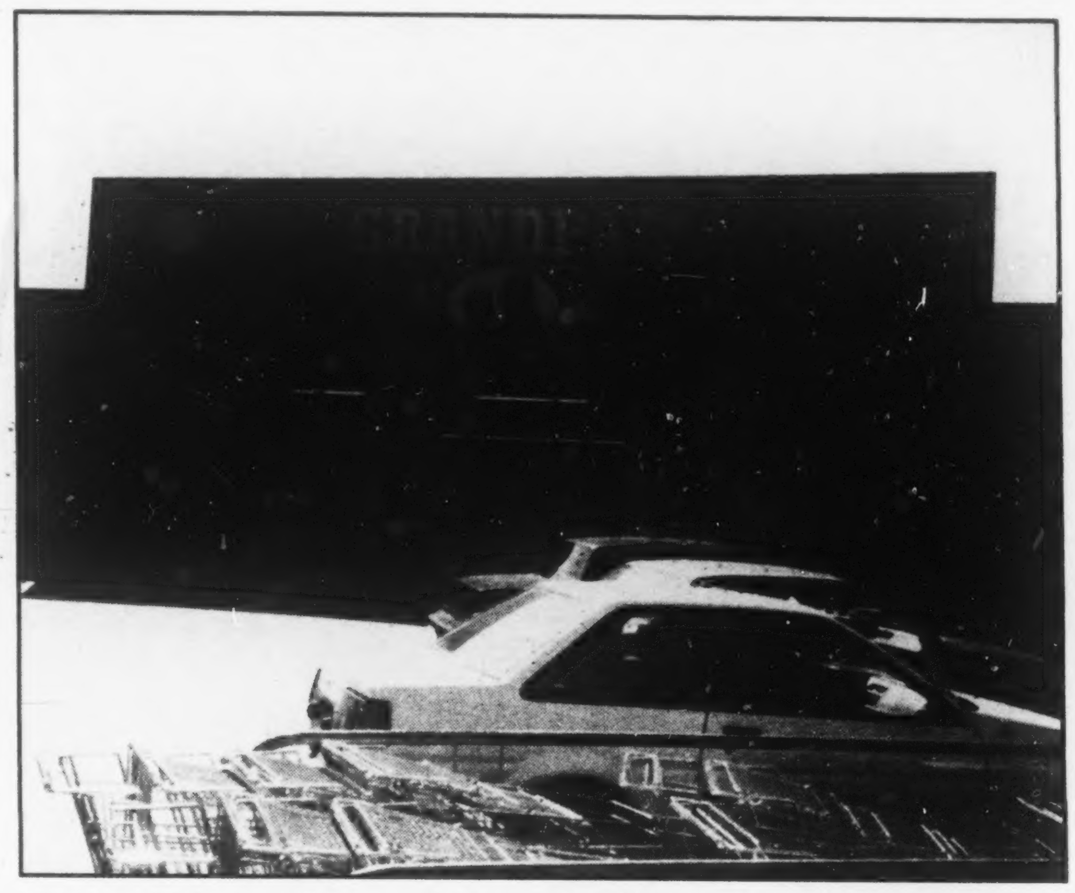
Approximately eight out of 10 Target shoppers reported visiting a Venture store in the period prior to the survey and two-thirds said they shopped at K mart.

More than seven of 10 Wal-Mart shoppers said they went to a K mart store in the three months before the survey was taken and more than two-thirds said they went to a Venture store.

Roughly three-fourths of Grandpa's customers said they visited a Venture store and nearly as many said they also shopped at K mart and Target.

About eight of 10 Best shoppers said they visited Venture and nearly as many said Target. Seven of 10 Woolworth shoppers visited Venture stores and two-thirds said K mart.

And more than seven of 10 Service shoppers said they shopped at Venture and K mart and nearly as many said Target.



In St. Louis, locally-based Grandpa Pigeon's helps to stimulate the discount store market which also contains Venture, K mart, Wal-Mart, Target and a host of specialty retailers. (DSN photo)

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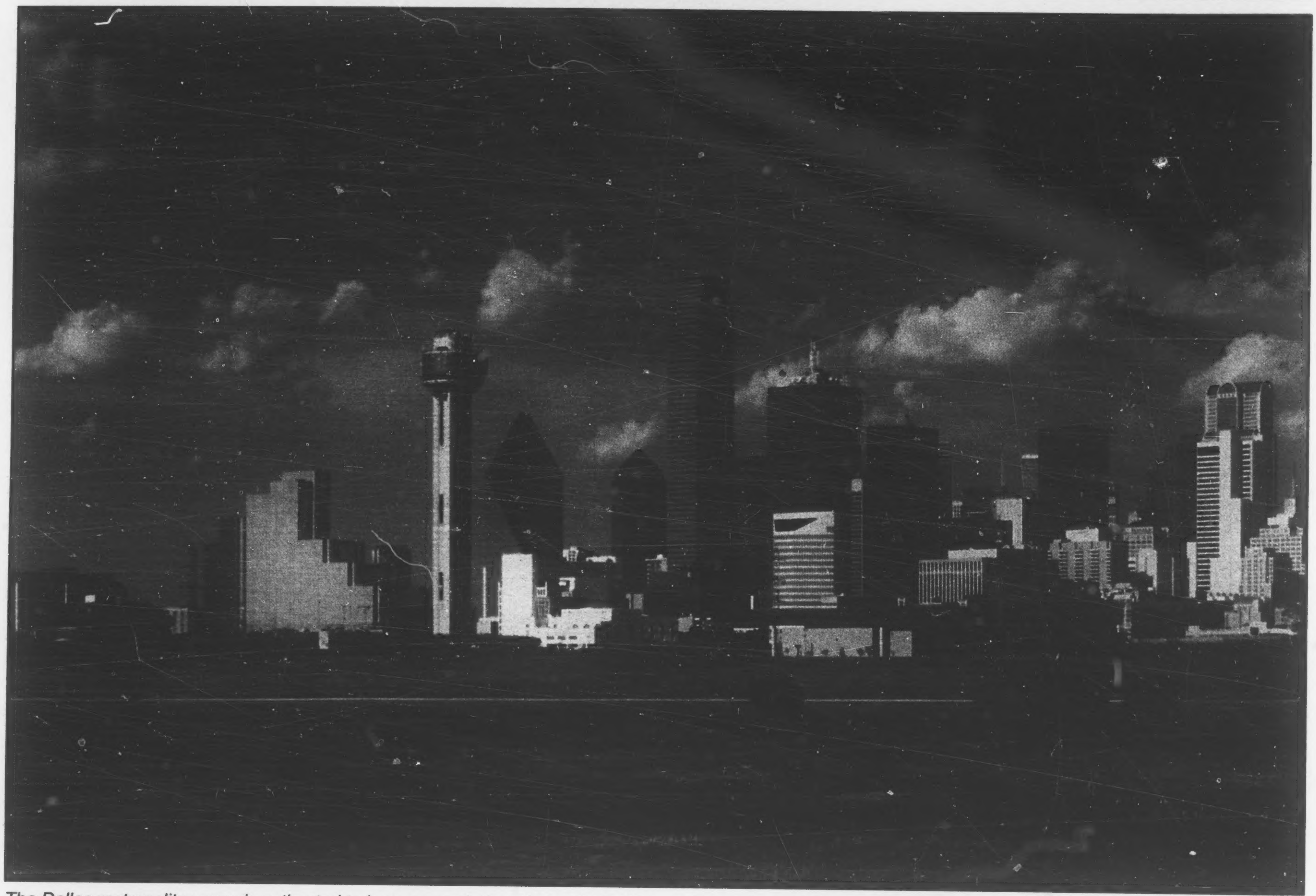

The Dallas metropolitan area is estimated to have a population of over 3.5 million, making it the sixth largest retail market in the country.

Dallas Discounters Thrive as Market Regroups

DALLAS — Like its beloved but erratic Cowboys, the Dallas area has endured a period of rough sledding after a decade of untrammeled success. At about the same time that the NFL Cowboys failed to make the play-offs for the first time in their history, the high-flying Dallas economy was tackled for a loss.

According to Dallas partisans, the worst is over and the city and its 1 million city-limit residents are on the rebound; however, others caution that the road back could be a slow and rocky one.

Tom Lewis, senior vice president, economic development for The Dallas Partnership, a local business group, said that he felt the dizzying heights of the boom may have resulted in unrealistic expectations. "We're going to have to learn to settle for above average" economic growth, he said. "We had kids just out of college making $100,000 selling real estate here; that's in the past now."

Despite its well-publicized troubles, Dallas remains a relatively affluent market. For instance, the city is the leading per capita consumer of trendy and expensive BMWs and car telephones. Average income in Dallas County is $27,015, and when some wealthier suburbs are factored in, the figure rises to $28,110, as of 1986.

Although the city's population is estimated at slightly under 1 million, metropolitan area population exceeds 3.5 million, making it the sixth largest retail market in the country.

Because few of the city's major employers are directly involved in the oil business, Dallas was not hit as hard by the near collapse of the oil market as was the rest of the state. Therefore, although Dallas went into recession more slowly than did other Oil Patch markets, it may come out more slowly as benefits of a resurgence in oil trickle in.

'We're going to have to learn to settle for above average economic growth.'

—Tom Lewis,
senior vice president,
economic development,
The Dallas Partnership

Retailers evidently have maintained faith in the market, despite reports that Dallas may be seriously overstored. K mart (32 stores), Wal-Mart (15 plus two Sam's Wholesale Clubs and a Hypermart USA due soon) and Target (15) all have commanding presences here, and about a dozen other discounter chains, including Marshalls, Loehman's, Gibson's, Best Products and Service Merchandise, share the market.

Because of its favored status as a test market, Dallas is also inundated with specialty retailers, from sporting goods giants Oshman's and Hermans through home products retailers like The Home Front, to apparel outlets Hit or Miss and Ross Stores.

Dallas, with its high concentration of new wealth, also boasts a wide selection of department stores, including Bloomingdale's, Macy's, Dillard's, Lord & Taylor and Neiman-Marcus, which has its headquarters here. Mass merchandisers Sears, J.C. Penney and Montgomery Ward are also well represented.

The booming retail market came to a screeching halt in 1985, although new construction continued apace for a bit, effectively doubling the commercial space vacancy rate from a 1984 level of about 15 million square feet to a little over 30 million square feet in 1986. Retail sales were virtually flat during the period, while store count increased significantly, resulting in a lot of empty aisles.

Evidently, discount aisles stayed busy. K mart's presence increased by about 50 percent during the two-year period, and Wal-Mart continued its strategy of ringing the city. Both also made significant area investments: K mart in a new 450,000-square-foot distribution center for its K mart Apparel Group; and Wal-Mart in its new Hypermart USA, which will be one of the country's largest stores when it opens this month.

Department store sales (including discounters) in Dallas grew only 3.9 percent in 1986. However, the total retail market grew even less—only 1.8 percent in that period.

The period also saw the debut of American Wholesale Club, which opened membership warehouse clubs in Plano and Mesquite in 1986 and 1987, respectively.

But is all this optimism warranted? That depends on whom one talks to. Unrestrained Dallas boosters point to the leveling-off of unemployment, the influx of white collar employers like J.C. Penney (which recently relocated its headquarters here from New York), its relatively young and affluent population and its independence from the oil business as factors in an upcoming turnaround.

The optimists have received a boost lately from an October report from Salomon Brothers, the New York-based investment firm, stating that Dallas has bottomed out economically, and now represents a good bargain for potential investors. According to the report, with a few exceptions, most weak sectors of the Texas economy "appear to have already washed out and are now poised for economic recovery."

And, just in time, at that. Dallas, a $31.5 billion retail market in 1986, grew only 1.8 percent over 1985 in combined retail sales. By contrast, Boston grew 6.2 percent and Detroit gained 8.3 percent, while Houston, one of the hardest hit areas of the Oil Patch, recorded declining sales for two straight years.

Department store sales (including discounters) in Dallas outperformed the retail market as a whole, but not by much, with a still lackluster 3.9 percent rise over 1985. Boston, by way of comparison, nearly doubled that with a 7.5 percent gain in department store sales.

Dallas observers feel that most indicators favor their home town. Unemployment, historically below the national average, rose sharply earlier this year, but seems to have leveled off. Commercial and

(Continued on page 117)

Dallas Discounters Thrive as Market Regroups

(Continued from page 115)

residential rentals, off sharply for the past year, appear to be strengthening, although this will probably remain a sore point for the foreseeable future, with the massive vacancy rate forestalling any new construction.

According to the Dallas Partnership, the influx of white collar jobs and new residents has risen sharply in the past year, highlighted by Penney's decision to move its 4,000 headquarters jobs from New York to the Dallas suburb of Plano.

Others moving to Dallas or opening or expanding local operations include Motel 6, National Data Corp., Uniden, Sanden International, Heritage Media, Gump's Department Stores, Mastsushita, Nautilus Sports and K mart Apparel Corp.

The appearance is one of dramatic growth among a group dear to the hearts of retailers, but Dr. Harold Gross of Southern Methodist University's Center for Enterprising of the Cox School of Business warns that the appearance may be deceiving.

"Net growth in white collar positions is probably zero," he said. "Dallas is home to many regional headquarters, and as American businesses contract, they're closing up their regional offices."

A Shifting Market

Gross said that most real population growth in Dallas has been among blue collar workers, causing a shift (as opposed to a shrinkage) in the market. Those with the most to gain from this shift are discounters like Wal-Mart and K mart, as well as upscale retailers. Those in the middle are, he said, taking it on the chin, resulting in a shakeout.

For the short term, Gross said that he expects a slow Christmas at retail. "There hasn't been a pick-up in retail employment," he said. "It appears that retailers are increasing hours of underemployed workers, but they're not hiring any new ones." He typified that situation as "rare" at holiday.

Longer term, however, Gross has newfound hope, brought on, surprisingly, by Wall Street's Black Monday. "Before the crash, we were expecting a national recession to start in the second quarter of next year which would have crimped a recovery in Dallas," he said, adding that the crash probably has taken pressure off the economy, leading him to revise his recessionary projection. "This will enhance chances for recovery," he concluded.

Dick Palmer, executive vice president of American Wholesale Club, the membership warehouse based near here, is a bit more optimistic for the short term. "It looks like a good Christmas, if a little later than usual," he said. Although American Wholesale's sales are "strong," Palmer doesn't see that as a sign of recovery in the market area. "The warehouse club business thrives in downturns," he said, "so our sales record could be taken two ways."

However, he noted that retail footage in the Dallas area seems to be filling, and overall, he said he felt "comfortable with the resiliency Dallas has shown," and its ability to come back.

In a market basket survey conducted by *DSN* in October, the three major discounters in the market (K mart, Wal-Mart and Target) were compared for everyday low price on a preselected list of items.

Wal-Mart was clearly the lowballer in the Dallas market. Of the 30 products carried by all three, Wal-Mart was the lowest priced on 56.6 percent of the items. K mart was the lowest on one-third of the items, and Target the lowest about one-quarter of the time.

K mart was highest in the market among the Big Three chains on just over one-half the products, with Target right behind with 46.6 percent. Wal-Mart had the highest prices on only 13.3 percent of the items.

It's worth noting, however, that Wal-Mart virtually never puts anything on sale. K mart, on the other hand, is highly promotional, and its promotional prices were not included in the survey. The same held true at Target.

The stores visited, however, reflected the price results in a variety of ways. Wal-Mart was routinely more deeply stocked and busier than either of the others. Target had distinct out-of-stock problems in its consumer electronics, stationery and photo departments. In CE, Target actually had boxed understock of items (televisions, VCRs and stereo systems) which were not displayed or visibly priced.

As is Wal-Mart's wont, its Dallas stores are located primarily in out-of-the-way bedroom communities. Both Target and K mart chose highly visible locations, usually at or near exits on major highways. However, Wal-Mart seemed to draw just as much traffic as the other two chains.

Dallas, as a retail market, is emitting mixed signals. On the whole, discounters seem to be thriving. On the other hand, many restaurants were virtually empty, traffic at the indoor Galleria mall was relatively light, and someone had set up a succession of signs above the Dallas Tollway begging motorists to purchase his $300,000 house. "Must sell!" the first sign read. "Thanks, buy, buy" the last importuned.

Like the Cowboys, Dallas seems to be going through a wait-and-see kind of year.

MARKET BASKET: Dallas, Texas

Prices on 30 selected products sold at all three chains

Product	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448	$26.97	$24.58	$23.49
Black & Decker 7¼-in. circular saw, No. 7391	39.94	39.96	39.99
Black & Decker ⅜-in. drill, No. 7144	31.99	29.97	26.39
Black & Decker Dustbuster, No. 9330	22.99	24.64	22.99
Yahtzee dice game, No. E950	4.96	4.44	4.99
Compact disc	12.99	13.96	12.99
Album, single LP	6.96	6.96	6.99
Ivory conditioner, normal, 15-oz.	1.69	1.68	1.69
Agree conditioner, reg., 15-oz.	2.69	1.94	1.99
Head & Shoulders shampoo, 11-oz.	2.49	2.44	2.99
Crest tartar control toothpaste, 6.4-oz.	1.59	1.56	1.49
Colgate regular toothpaste, 7-oz.	1.47	1.48	1.49
Listerine, 32-oz.	2.39	2.47	3.39
Gillette Foamy regular shave cream, 11-oz.	1.87	1.28	1.69
Gillette Atra blade catridges, 10-pak	3.94	3.87	3.94
Corning Visions, 2½-qt. saucepan w/cover, No. V242N	18.96	15.96	14.99
Corning Visions, 6-piece set, No. V300N	24.96	24.96	27.99
Sunbeam Oskar, No. 14061, white	59.68	48.68	49.99
Regina 3-speed Electrickbroom, No. HB7439	39.99	39.43	39.99
Conair Pro hair dryer, 1,250 watts, No. 085	12.99	9.86	12.99
Fram oil filter, No. PH8A	2.78	2.57	2.79
Turtle Super Hard Shell paste, 14-oz., No. T222	3.97	2.34	2.99
Gumout Jet Spray, 13-oz., No. 7450	1.79	1.47	1.59
Prestone antifreeze, 1-gal., advanced formula	4.59	4.64	4.89
Pennzoil Multi-Vis. 10W30 motor oil, 1-qt.	0.89	0.98	0.97
STP oil treatment, 15-oz., No. 3010702	1.26	1.27	1.29
Wilson synthetic leather basketball, Pro 1000	11.97	12.96	9.99
Coleman standard 2-burner stove, No. 425F499	30.97	29.96	30.79
Crayola markers, broad, 8-count	2.96	1.96	1.99
Bic 10-pack, Biro, blue, medium	1.52	1.34	1.39
TOTAL MARKET BASKET	**$384.21**	**$359.61**	**$361.13**
Lowest in Market	**10 items**	**17 items**	**7 items**
	33.3%	**56.6%**	**23.3%**
Highest in Market	**16 items**	**4 items**	**14 items**
	53.3%	**13.3%**	**46.6%**

Market baskets were conducted in October 1987 in area stores.

Source: DSN research

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Chains Jockey for Spots in Enigmatic Memphis

MEMPHIS, Tenn. — Here is a city where "Elvis lives," even though he is dead. Likewise, the city is rich but poor; employment is up but down; and business has never been better . . . or worse. It all depends upon which side of the Graceland fence you are on.

The birthplace of rock 'n roll is in the middle of an identity shift which, in a broad sense, has spawned economic growth. Discounters have nestled stores in the rift between the very rich and very poor, offering ambience that dollar outlets lack, and pricing that undercuts newcomers like Polo/Ralph Lauren and Banana Republic.

Service and distribution occupations are quietly replacing manufacturing and agriculture as the dominant Memphis industries. Federal Express, Northwest Airlines and Holiday Inn are among the top employers.

Retail employment as a percentage of the workforce has remained fairly steady during the past 15 years despite changes in the core economy, and is expected to grow in tandem with the overall market in the years ahead.

The city's growth has been strong and fairly constant during the past five years, according to the Memphis Business Activity Coincident Index, charted by the Bureau of Business & Economic Research at Memphis State University. But this growth has been uneven.

The 20 percent poverty level in Memphis is among the highest of U.S. metropolitan areas, but swelling pockets of affluence create a misleading, inflated average income. The polarity among those who have and those who have not is intensifying, as those who can afford to move to the suburbs leave the impoverished behind.

Other statistics indicate that in 1980, nearly half of Memphis' black population fell below the poverty level, while under 15 percent of whites were below that level. With nearly 400,000 blacks within its boundaries, Memphis ranks 13th among all U.S. cities, higher than Dallas, Cleveland and Birmingham.

Of Memphis city school children, about 80 percent were at or below the poverty level, and, according to the local Economic Planning department's best estimates, the situation has not changed much in the past seven years.

Last year, there were about 39,000 households that generated an effective buying income (EBI) of $50,000 or above, according to *Sales and Marketing Management* magazine, or about 12 percent of Memphis households.

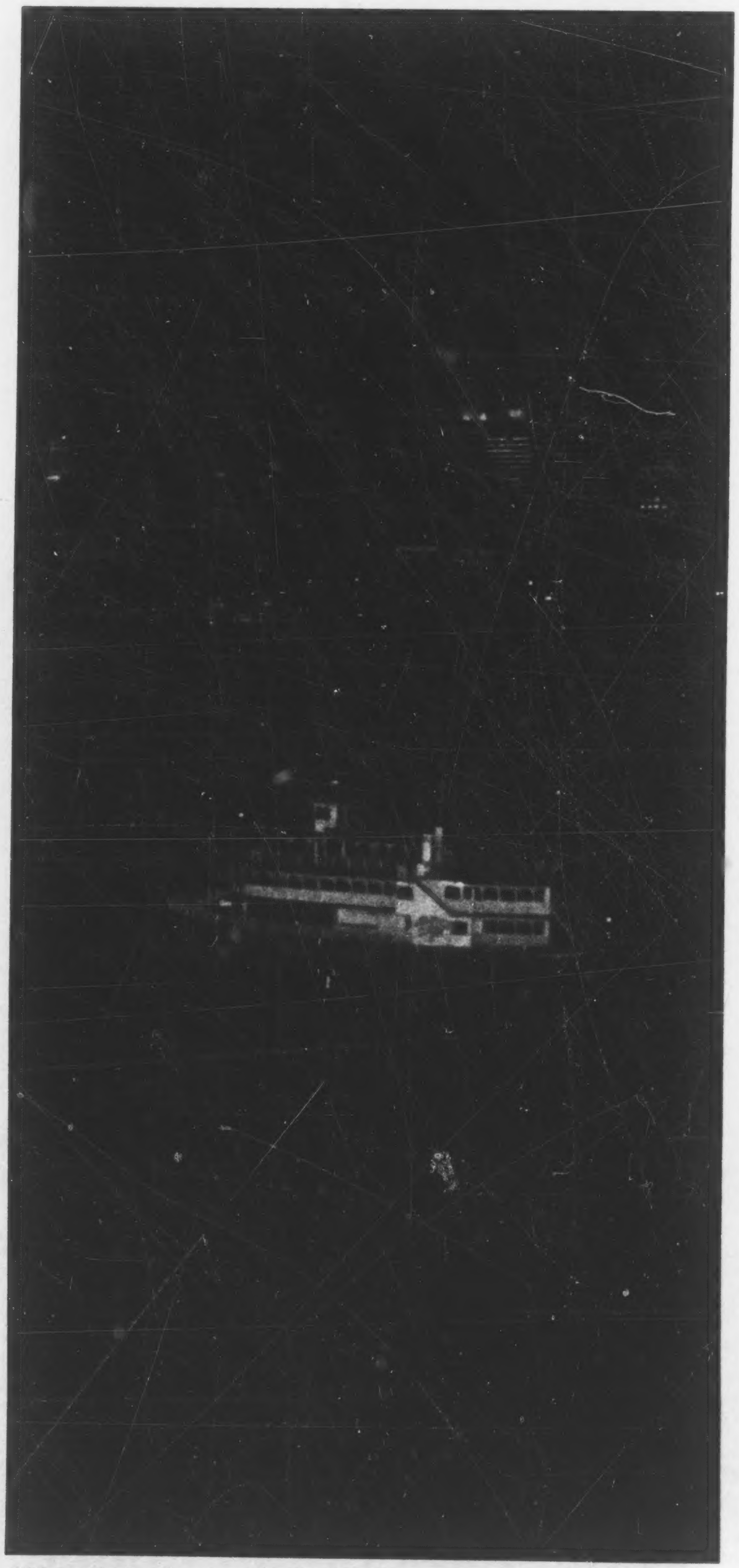
This year, the number of households rose by 10,000, and about half of these fell into the $50,000 or more EBI bracket.

Despite rising affluence, the city's median EBI remains about $3,000 below the U.S. EBI median, which reached $24,632 this year.

The dollar stores—Family Dollar, Dollar General and Bargain Town USA—primarily serve the center city region and Western Memphis. In this city, Family Dollar operates 12 stores, Dollar General nine, and Bargain Town USA eight.

Zayre, with five stores, pursues a broader customer base—reaching to the consumer who has a little more disposable income—but is a

(Continued on page 120)



Although riverboats still glide by Memphis, the city's former dominant industries of manufacturing and agriculture are being quietly replaced by service and distribution occupations.

MARKET BASKET: Memphis, Tennessee

Prices on 59 selected products sold at all three chains

Product	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448	$ 22.76	$ 24.58	$ 23.49
Black & Decker 7¼-in. circular saw, No. 7391	46.99	39.96	39.99
Black & Decker ⅜-in. drill, No. 7144	26.97	29.97	26.39
Duracell 9-volt battery, 1-pak	1.56	1.56	1.59
Stanley saw, 26-in., 8-pt, No. 726	4.71	4.78	4.79
Stanley Workmaster hammer, No. ST-1-½, 16-oz.	11.72	12.56	12.99
Stanley Powerlock tape measure, No. 33-116	8.46	8.86	12.49
Kodak disc film, twin pack, No. 1552633	4.37	4.26	4.29
Polaroid Sun 660 camera	76.88	72.93	79.99
Kodak 110 color print film, 12-exp.	2.38	2.18	2.19
Sorry board game	8.53	8.96	9.99
Scrabble board game, No. 17	7.88	8.63	7.69
Monopoly board game	8.96	8.53	8.79
Nintendo video game set	139.00	138.74	139.99
Crayola Crayon, 64-ct., with sharpener	2.77	1.97	1.99
Hasbro Pogo Bal	14.97	12.97	14.99
My First Barbie	5.97	5.96	7.99
Fisher-Price Little People/Little Farm	19.96	14.94	21.96
Fisher-Price Speak and Spell	44.88	41.63	39.99
Worlds of Wonder Lazer Tag game kit, No. 360032-11	37.77	37.77	36.36
Mattel Captain Power action figure	4.37	3.97	3.99
Prerecorded Video, Disney Cartoon Classic	14.88	12.83	9.99
Compact disc, Madonna	13.44	14.77	12.99
Album, single LP, Madonna	9.87	6.96	6.99
Ivory conditioner, normal, 15-oz	1.50	1.50	1.49
Agree conditioner, regular, 15-oz.	1.94	1.94	1.99
Head & Shoulders shampoo, 15-oz.	2.96	2.52	2.99
Bausch & Lomb sensitive eyes saline solution, 12-oz.	1.97	1.50	1.49
Trojan regular condoms, 12-pk.	3.66	2.03	2.39
Johnson & Johnson baby powder, 14-oz.	1.77	1.77	1.99
Mennon Speed Stick deodorant, reg., 2.5-oz.	1.76	2.16	1.79
Crest tartar control toothpaste, 6.4-oz.	1.77	1.48	1.39
Colgate regular toothpaste, 7-oz.	1.36	1.48	1.39
Dexatrim maximum strength caplets, 40-ct.	6.67	6.21	7.19
Secret solid deodorant, 2-oz.	2.43	2.24	1.99
Atra blade cartridges, 10-pk.	3.49	3.48	3.49
Alka Seltzer, 36-ct.	2.19	2.12	1.99
Halls Mentholyptus, 30-ct.	1.14	0.81	0.99
Corning Visions 2½-qt. saucepan, V-2½-N	17.97	15.96	17.49
Corning Visions 6-piece set, V-300-N	24.96	24.96	22.99
Sunbeam Oskar, No. 1408	59.68	48.68	49.99
Oster Galaxie Cycle blender, No. 869-16	23.94	25.94	23.99
Clairol Benders, No. 3360	29.97	26.84	22.99
Ekco Bakers Secret loaf pan, No. 64470	2.87	2.46	2.49
Armor All, 16-oz.	4.47	4.47	4.49
Turtle Super Hard Shell paste, 14-oz.	3.97	2.97	2.99
Borden Rain Dance paste, 14-oz.	6.97	5.64	5.49
AC-Delco spark plugs, R45T5-8B	9.52	9.84	9.99
Quaker State Deluxe motor oil, 10W40, 1-qt.	0.98	0.98	0.99
Castro GTX motor oil, 20W50, 1-qt.	0.98	0.94	0.97
Pennzoil Multi-Vis. motor oil, 10W40	0.98	0.98	0.99
STP oil treatment, 15-oz.	1.77	1.07	1.38
WD-40 aerosol, 12-oz.	1.88	1.64	1.64
Ford Motorcraft oil filter, FL400A	3.39	2.93	2.99
Texaco Havoline motor oil, 10W40, 1-qt.	0.98	0.78	0.68
Coleman standard 2-burner stove, No. 425F499	33.97	34.26	30.79
Crayola markers, broad, 8-ct.	1.67	1.96	1.99
Papermate 10-pk pens, medium blue	1.38	1.34	1.39
Liquid Paper, white, 0.6-oz.	1.58	0.82	1.29
TOTAL MARKET BASKET	**$785.78**	**$766.97**	**$772.46**
Lowest in Market	**16 items**	**33 items**	**18 items**
	27.1%	**55.9%**	**30.5%**
Highest in Market	**32 items**	**10 items**	**21 items**
	54.2%	**16.9%**	**35.5%**

Market baskets were conducted in October 1987 in area stores.

Source: DSN research

A recent Memphis market basket showed Wal-Mart had the lowest price 55.9 percent of the time, but didn't have the lowest total dollar figure. (DSN photos)

Shift in Identity For Memphis Is Helping Economy

(Continued from page 119)

not too distant neighbor to the dollar outlets.

At the other end of the spectrum, a wave of upscale specialists have set up shop in the affluent Southeast/Germantown area.

Apparel off-pricers Burlington Coat Factory and Marshalls each operate two stores here.

K mart, Wal-Mart and Target have carved their niche between the two extremes, neighboring the affluent communities somewhat more closely than the predominantly black, impoverished center city.

Memphis' median EBI remains about $3,000 below the U.S. EBI median, which reached $24,632 this year.

K mart operates seven discount stores here; Target and Wal-Mart each have four. In addition, Wal-Mart has two Sam's Wholesale Clubs in Memphis.

Pricing strategies at the three chains that dot the mid-Eastern Wolf River divide became clear after tabulating prices on a 59-product market basket in eight store departments.

Among the three chains, Wal-Mart had the lowest price on 33 items, or 55.9 percent of the total market basket, but did not have the lowest total dollar figure. While Target was priced lowest on only 18 items, or 30.5 percent of the market basket, the savings on these items were more pronounced than at Wal-Mart.

Wal-Mart might have lower prices, but only by a few pennies. When Target decides to have the lowest price on an item, margins are cut to the bone. Wal-Mart's total market basket on the 59 identical products was $766.97, while Target's was $772.46.

The Wal-Mart and Target stores where the market basket was conducted by *DSN* were located on secondary roads. The K mart visited to compile the market basket

(Continued on page 121)

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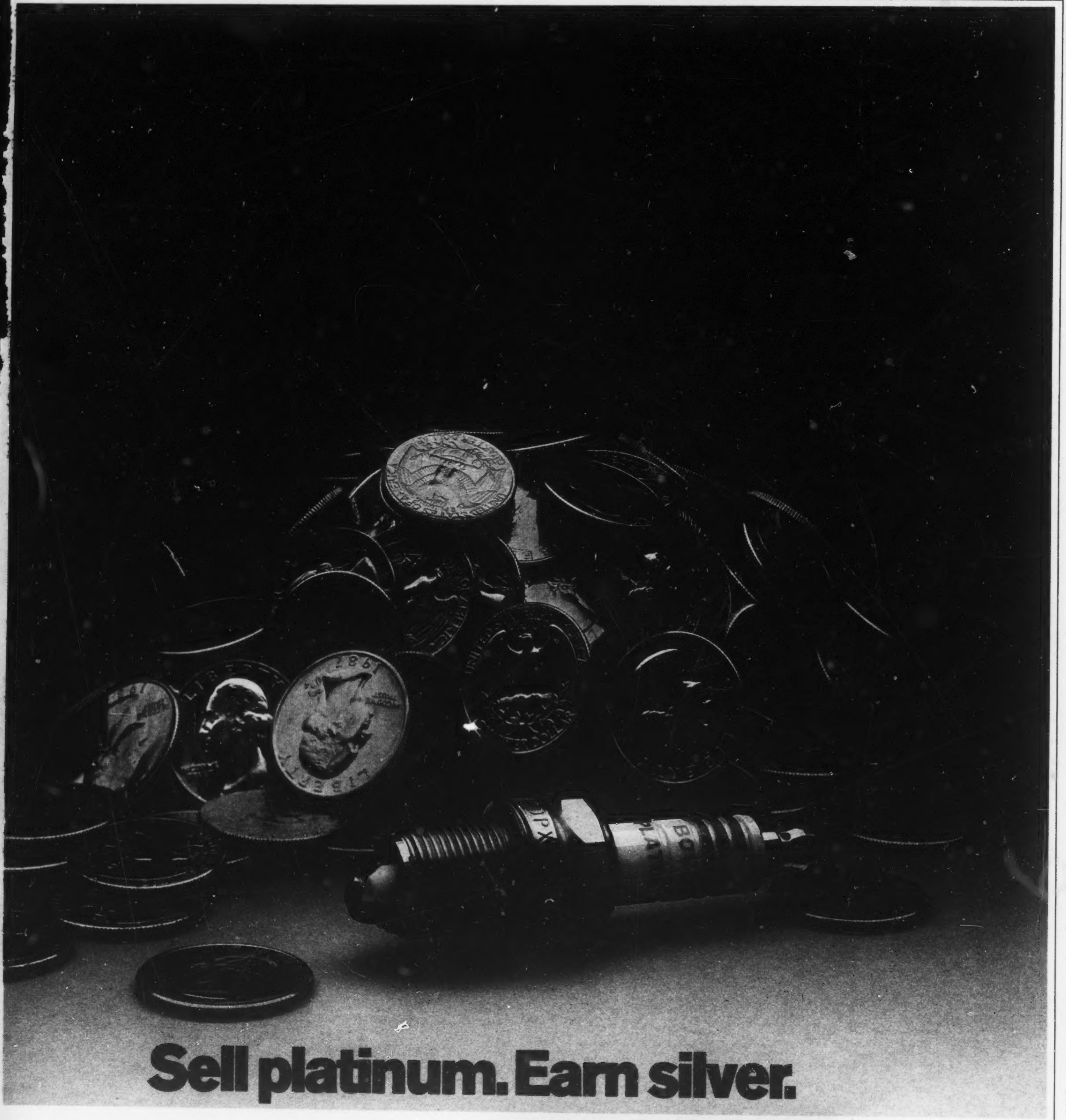
While Target was priced lowest on only 18 items, or 30.5 percent, the savings on those items were more pronounced than its competitors' best offerings. (DSN photos)



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PLATINUM

The Ultimate Spark Plug.

BOSCH

Big Three Carve Niches Between Affluent and Poor

(Continued from page 120)

was situated on Summer Avenue, a major thoroughfare. This store's prices were the highest of the three chains 54.2 percent of the time. K mart had the lowest price on 27.1 percent of the items, primarily on hardware and health & beauty aids merchandise.

Merle McGrouder, regional manager for Bargain Town USA in Memphis, said Wal-Mart, a relative newcomer to the market, is the dominant discounter despite its comparatively few stores. "Wal-Mart is more aggressive. K mart has become complacent, and, quite frankly, I think [Wal-Mart] will be catching up with them soon," he said. Bargain Town is a Birmingham, Ala.-based, 52-store chain that targets the city's low-income and welfare recipient shoppers.

Those who have money in Memphis are not reluctant to spend it, however. Per household retail sales top $19,000, exceeding the U.S. average by nearly $3,000.

Catering to the emerging upper class, tenants such as Polo/Ralph Lauren, Banana Republic and Crabtree & Evelyn are filling newly-constructed shopping centers and malls along the burgeoning Eastern rim of the city. But if 1988 retail sales are as expected, these outlets could be losing sales to the discount stores that form a reef between the elite and the impoverished.

Per household retail sales top $19,000, exceeding the U.S. average by nearly $3,000.

David Bourne, research associate at the Bureau of Business and Economic Research at Memphis State University, projected that retail sales will be sluggish if not completely flat next year due to overall instability in the financial market.

"If some retrenchment of the Memphis economy does occur, the new upscale shops will likely be hurt more than the discount chains," Bourne said.

Austin's Yuppies Find Target Most Appealing

AUSTIN, Tex. — Flush with highly-paid, highly-educated workers from the University of Texas, state government and high-tech concerns such as IBM, Austin has developed a classic Yuppie population.

"You see a lot of BMWs on the streets," said Jerry Olson, co-founder of Johnston, Olson Associates, a demographics consulting firm.

Thanks to employment at the university, in state government and with research and development companies, Austin boasts a service economy relatively insulated from the Oil Patch woes that have hit other Texas cities, particularly Houston.

The state capital is emerging as an R & D, high-tech center for the Southwest, with a predominately white-collar work force. More than 200 high-tech companies employ an excess of 30,000 persons.

Nonetheless, a glut of empty office buildings, a slump in population growth from 6.7 percent in 1985 to perhaps zero in 1987, the loss of 4,100 construction jobs this year and a continuing decline in retail sales that began last year shows that the state capital suffers somewhat along with the rest of the Texas economy.

Local economists say Target dominates the Austin market, even though K mart has four stores compared to Target's two.

Given that upscale work force, Target dominates the Austin discount store market, local economists say, even though K mart operates four stores here, compared to two for Target.

A Wal-Mart store, located 15 miles from Austin in a booming R & D area, and a Sam's Wholesale Club, owned by Wal-Mart, offer additional discounting competition.

A number of catalog showrooms round out the discount picture: two Service Merchandise units, two Edison's, a regional chain, and a Best Products unit.

Of Austin's population of 732,900, about 10 percent are black and 20 percent Hispanic.

"Austin is relatively sophisticated," Smith said. Weighted with scientists and engineers, its work force of 412,600 is better educated than the national average. Of those over age 25, 39 percent have earned college degrees, he said, compared to 25 percent nationally.

Examples of high-scale employment: IBM employs about 14,000 at three facilities in Austin and developed the second generation personal computer here; 3M is building a gigantic electronics facility that will employ 5,000; about 11,000 work at the University of Texas, and about 40,000 work in state government.

Average and median household incomes run 10 percent to 15 percent above the state average. Household income in Austin averages $38,500 a year, up from $37,000 in 1986, the Austin Chamber of Commerce estimates.

The median household income, with half higher and half lower, is $29,700, finds the Scarborough Market Report commissioned by the Austin *Statesman-American* newspaper.

Of the three chains, Target dominates because it has better looking and bigger stores, along with better selection, said James F. Smith, economist for the Bureau of Business Research at the University of Texas. "A Target is more appealing because it looks like a department store," he said.

"K mart's blue light specials don't attract as well here."

The 1987 Scarborough Market Report shows that 46 percent of Austin adults surveyed shopped at a Target during the previous 90 days. In comparison, 37 percent of adults shopped at a K mart. Wal-Mart shopping patterns weren't included.

MARKET BASKET: Austin, Texas

Prices on 60 selected products sold at all three chains

Product	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448	$ 26.97	$ 24.58	$ 23.49
Black & Decker 7¼-in. circular saw, No. 7391	49.97	39.91	39.99
Black & Decker ⅜-in. drill, No. 7143	25.97	21.96	26.39
Black & Decker Dustbuster, No. 9330	27.87	24.64	23.99
3M sandpaper pack, assorted, 5 sheets, No. 9005	1.89	1.88	1.79
Stanley Powerlock tape measure, No. 33-116	8.49	8.86	12.49
Kodak disc film, twin pack, No. 1552633	3.96	3.86	3.99
Canon Sure Shot Supreme, No. C13-2362	188.00	169.87	169.99
Time Zero SX-70 film, twin pack, 20-exp.	14.99	16.58	14.99
Kodak color film, 24-exp., 35mm, ASA 100	2.99	2.29	2.69
Minolta Maxxum-SLR-35mm camera, 7000	399.00	340.00	386.99
Scrabble board game, No. 17	7.97	8.73	7.99
G.I. Joe Persuader Tank action set, No. 6038	9.77	8.93	9.99
Throttlebott, Transformers action figure	3.27	2.96	2.99
Worlds of Wonder Lazer Tag game kit, No. 360032-11	47.99	39.78	39.97
Yahtzee dice game, E950	3.97	4.44	4.99
Alf doll, non-talking	24.94	24.97	24.99
Compact disc, Madonna "Who's That Girl"	17.33	12.96	12.99
Album, single LP	9.23	8.24	8.99
Sony blank videotape, T-120	3.77	3.96	4.99
TDK blank audiocassette, 60-min, 2-pak.	2.47	2.27	2.94
Ivory conditioner, normal, 15-oz.	1.67	1.68	1.69
Agree conditioner, regular, 15-oz.	2.67	1.94	2.39
Trojan condoms, regular, 12-pk.	3.66	2.48	2.39
Tampax tampons, original regular, 40-ct.	3.69	2.77	2.79
Johnson & Johnson baby powder, 14-oz.	1.89	1.96	2.19
Mennen Speed Stick deodorant, reg., 2.5 oz.	1.99	2.16	2.19
Colgate regular toothpaste, 7-oz.	1.49	1.48	1.39
Listerine, 32-oz.	2.69	2.97	3.39
Dexatrim maximum strength capsules, 40-pak	6.97	7.12	7.19
Tylenol caplets, extra strength, 50-ct.	3.69	3.97	3.69
Secret Solid deodorant, 2-oz.	2.43	1.92	2.59
Gillette regular shave cream, 11-oz.	1.29	1.67	1.69
Vicks Nyquil Nighttime cold medicine, 10-oz.	4.49	4.08	4.49
Gillette Atra blade cartridges, 10-pak.	3.69	3.87	4.29
Alka Seltzer plus, 36-ct.	3.79	3.74	3.79
Corning Visions, 2½-qt. saucepan, V-2½-N	17.97	15.96	14.99
Sunbeam Oskar food processor, white, No. 14061	56.93	48.68	49.99
Oster Galaxie Cycle blender	31.88	23.94	24.99
Nordic Ware Micro-Go-Round, cookware, 62301	29.96	17.97	24.99
Fram oil filter, No. PH8A	3.19	2.57	3.19
Armor All, 16-oz.	4.49	4.47	4.49
Turtle Super Hard Shell paste, 14-oz., T-222	2.97	2.97	3.99
Borden Rain Dance paste, 14-oz., 0245N	5.69	5.64	5.64
Gumout Jet Spray, 13-oz., No. 7450	1.97	1.64	1.64
AC-Delco spark plugs, No. 852	9.92	9.84	9.99
Quaker State Deluxe motor oil, 10W40, 1-qt.	0.99	0.98	1.14
Pennzoil Multi-Vis motor oil, 10W30, 1-qt.	0.99	0.98	1.02
Champion spark plugs, No. 322	4.96	4.92	4.99
STP oil treatment, 15-oz.	1.39	1.38	1.39
Ford Motorcraft oil filter, No. FL400A	2.99	2.83	2.99
Texaco Havoline motor oil, 10W40, 1-qt.	0.99	0.78	0.78
Coleman standard 2-burner stove, No. 425F499	30.97	34.26	30.79
Wilson tennis balls, can of 3, official U.S Open	1.99	2.18	1.99
Crayola markers, broad, 8-ct.	2.19	1.96	1.99
Papermate 10-pack pens, medium blue	1.38	1.34	1.39
File folders, generic, 48-ct.	3.47	3.96	3.99
Filler paper, wide rule, generic, 200-ct.	0.59	0.63	0.59
Filler paper, narrow rule, generic, 200-ct.	0.59	0.63	0.59
Trapper Keeper binder, No. 29100	4.88	3.93	4.69
TOTAL MARKET BASKET	**$1,150.25**	**$1,009.92**	**$1,076.00**
Lowest in Market	**19 items**	**35 items**	**15 items**
	31.7%	**58.3%**	**25.0%**
Highest in Market	**30 items**	**7 items**	**29 items**
	50.0%	**11.7%**	**48.3%**

Market baskets were conducted in October 1987 in area stores.

Source: DSN research

Despite the upscale image of Target, its pricing fell in the middle in a market basket survey that *DSN* conducted. K mart was highest, while Wal-Mart was lowest.

For a market basket of 60 items ranging from power tools to razor blades, the bill at the Austin area Wal-Mart totaled $1,009.92. It was lowest on 35 items, or 58.3 percent, and highest on seven, or 11.7 percent.

At K mart, the bill came to $1,150.25. It was highest on 30 items, or 50 percent, and lowest on 19, or 31.7 percent.

Target fell in between, with a total bill for the 60 items of $1,076. Its prices were lowest on 15 items, or 25 percent, and highest on 29, or 48.3 percent.

"It is pretty fascinating that Target is outpricing K mart," Smith said.

In Austin, the discount store count is low, he said. On the upper scale, Austin lacks any store on a par with Sacks, Nieman Marcus or Bloomingdale's.

Although included in the Austin metro area, Wal-Mart stores in San Marcos and Taylor are 30 and 40 miles out, too far to draw shoppers from Austin, said Angelos Angelou, chief economist for the Austin Chamber of Commerce. Residents of those two towns do, however, commute to jobs in Austin, he said.

A total of 46 percent of Austin adults surveyed shopped at a Target in the previous 90 days, and 37 percent at a K mart.

Of the three chains, only Wal-Mart has disclosed expansion plans, Angelou said. Wal-Mart is considering a new store site only seven to eight miles outside of Austin, he said, and plans to add another Sam's Wholesale Club.

The timing of any expansion remains uncertain, Angelou said, because Austin's bloom from 1980 to 1985 has lost its blush.

The Austin economy had been growing at the rate of about 14 percent a year, Smith said, but has slowed to about 3 percent.

Population growth has flattened from 6.7 percent in 1985 and probably will hit zero for 1987, predicted Olson, the demographer.

A major home builder went bankrupt earlier this year, Olson said, and the large number of unsold homes on the market shows that the population boom that was driving the Austin economy has ended.

"Real estate is a killer," UT's Smith said. Developers put in place more non-residential construction in Austin in 1985 than in either New York, Philadelphia or St. Louis, he said.

(Continued on page 125)

Austin boasts a service economy relatively insulated from the Oil Patch woes that have hit other Texas cities, particularly Houston.

Target Appeals to Upscale Austin Consumers

(Continued from page 123)

Now Austin suffers from a 28 percent office vacancy rate (although down from 35 percent) and retail and apartment vacancy rates in the high teens.

Most of the increase in Austin's unemployment rate to 6.9 percent as of July 1987 from 5.6 percent in 1986 resulted from the loss of 4,100 construction jobs, Smith said.

Retail sales reflect the softer economy. They grew to $6.06 billion (excluding food) in 1985 from $3.85 billion in 1982, Texas Department of Commerce figures show. Last year, sales slipped to $5.74 billion. For 1987, retail sales will dip further to $5.5 billion, Angelou predicts.

State Commerce figures for the first quarter of 1987—the latest available—show retail sales totaled $1.34 billion for the Austin metro market, down slightly from $1.36 billion in the same period in 1986.

Despite flat population growth in 1987, the Austin population will grow 17.4 percent to 860,400 by 1991, projects the 1987 Survey of Buying Power of *Sales & Marketing Management* magazine.

Per household retail sales will gain 25 percent to $21,143 by 1991 from $16,907 in 1986, the survey projects.

In Austin market research, K mart's pricing was highest on half the items surveyed. (DSN photos)

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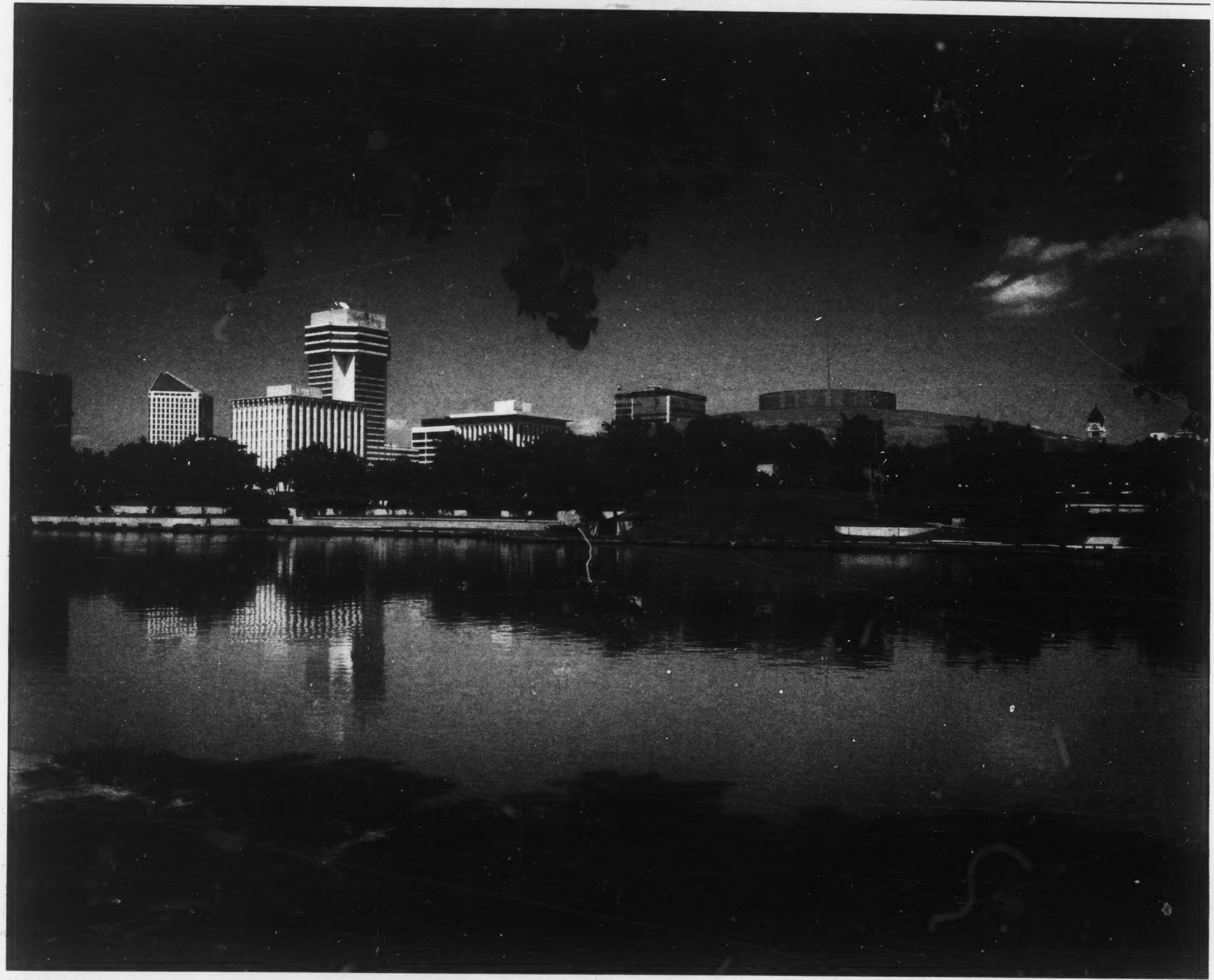


Wichita is the hub for the state of Kansas' retail and cultural activities. Discounters account for one of the fastest-growing segments of retail sales here.

Wichita Is a Hub of Activity for Discounters

WICHITA, Kan. — Mention Wichita, and most often farmland will come to mind. Other than Kansans, not many people in the nation may be aware that:

- The city of Wichita in Sedgwick County is one of the few urban counties in the state.
- Wichita is the largest county in the state.
- It generates the most retail sales in Kansas.
- And, discounters account for one of the fastest-growing segments of retail sales here.

It is described by Wichitans and Kansans alike as a hub of retail and cultural activity.

And, all three of the nation's biggest discounters are represented here: K mart, which opened its first Wichita store in 1967, now has four units; Target, which landed here in 1980, has two stores; and newcomer Wal-Mart, which opened its first store in August and has two more stores on the drawing board that could be open by next fall.

Sedgwick County's 1987 population was projected at 400,000 by CACI, a market research firm based in Fairfax, Va. Following Sedgwick, Johnson County is the second-largest urban county with 317,000 in population. However, that county is not solely confined to the borders of Kansas because it includes Kansas City, Mo.

Sedgwick County's gross retail sales for general merchandisers is the largest in the state, growing 11 percent to $662.9 million during the September 1986 to August 1987 period, up from $596.9 million for the year-ago period, according to Kansas Department of Revenue figures.

More than one-third of the total sales of general merchandisers is generated by department and discount stores. It is one of the fastest-growing segments, with sales rising 17 percent to $249.8 million from $213.1 million in 1986.

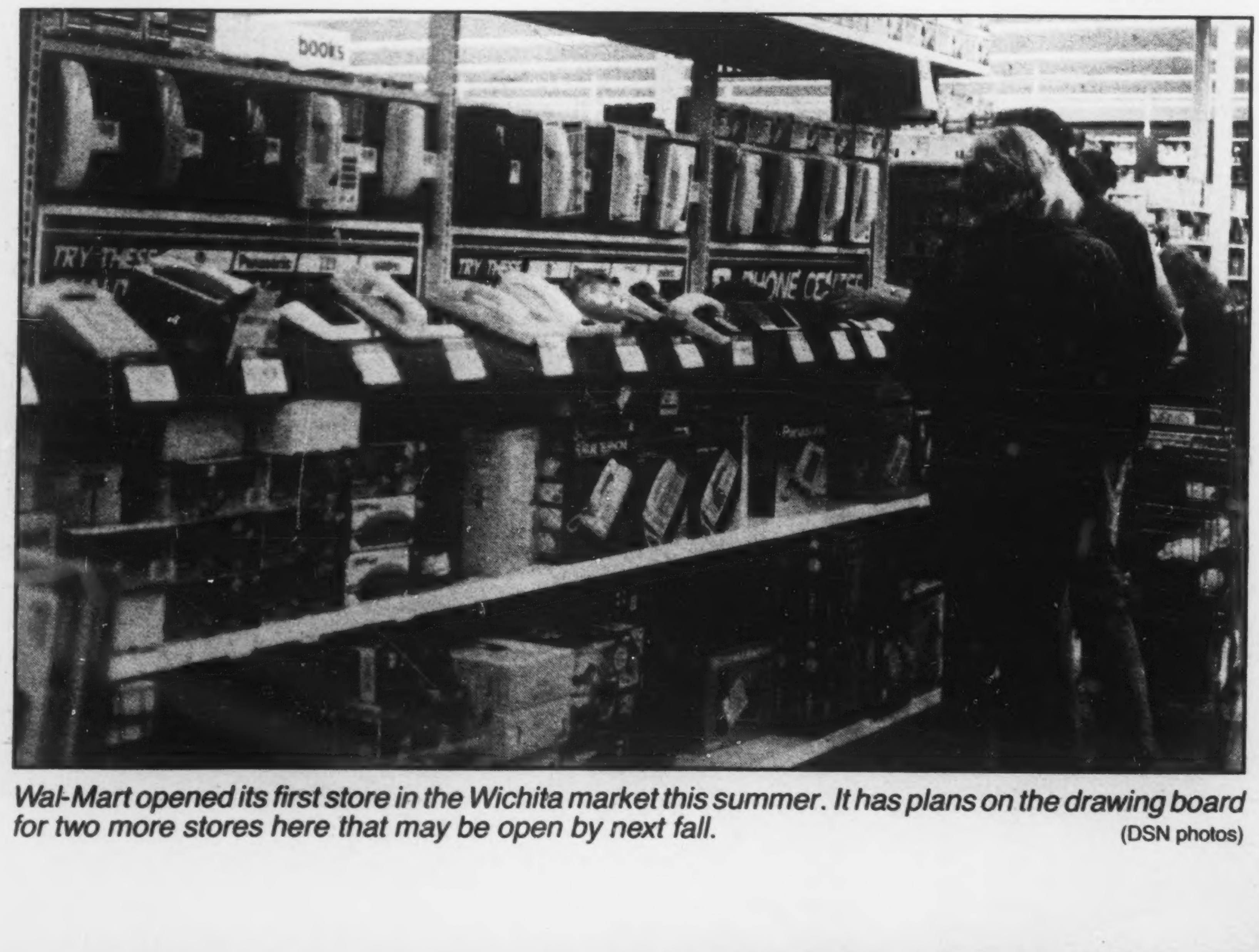
Wichita is distant from other major communities and serves as the regional center for shopping and retail activity, said Bud Grant, executive director of the Kansas Retail Council and vice president of the Kansas Chamber of Commerce and Industry in Topeka.

"People are willing to drive many miles to shop," said Carlene Hill of the Center for Economic Development and Business Research at the Barton School of Business at Wichita State University. "In rural communities, people don't think much about driving 100 miles in order to go shopping."

Wal-Mart is taking advantage of Wichita's growth in retail activity. Since its entrance in August, the chain has announced plans to have three stores in Wichita by 1989. Wal-Mart's presence is not totally new here, since the discounter has had stores in the outlying suburbs of Derby and Augusta.

Wal-Mart opened its first store in Wichita at the Pawnee Plaza Mall in August, taking

(Continued on page 129)



Wal-Mart opened its first store in the Wichita market this summer. It has plans on the drawing board for two more stores here that may be open by next fall.

(DSN photos)

Wichita Is Hot Spot for Discounting in Kansas

(Continued from page 127)

over a former 103,161-square-foot Woolco at one of the busiest intersections (Pawnee & Broadway) in Wichita, averaging 32,926 travelers per day.

In June, Wal-Mart said it would construct an 89,899-square-foot freestanding store adjacent to its Sam's Wholesale Club on West Kellogg to open next fall.

In October, Wal-Mart bought 12 acres of farmland in northeast Wichita on 21st and Rock Road to build a third Wal-Mart in this market. Construction will begin in the fall of 1988. The discount giant also operates two dot discount drug stores in Wichita.

However, while Wichita is the hot retail spot in Kansas, on a national basis, the city is ranked just under the top 100 metro markets in both general merchandise store sales and total retail sales.

"Four stores is enough right now in the Wichita market, said Wayne Keller, regional manager of K mart's Midwest region. "It is not a boom town compared to the rest of the nation," Keller said. "It is a stable economy and growing."

History in the Market

K mart was one of the first discounters in the market, opening its first store in March 1967 on the east side of Wichita and followed a month later with a second store on the west side of the market. Two additional stores were opened in 1976 and 1977, one on each side of the city. K mart also operates a Builders Square home center next to the Sam's Wholesale Club on West Kellogg.

Wichita's economy is heavily dependent on aircraft manufacturing. Recent hiring by such manufacturers as Cessna, Boeing and Beech bode well for retail sales in 1988.

"I can't see anything but positives, with farm products and oil starting to come back and strong airplane manufacturing in Wichita," Keller said. Wichita differs from most markets in Kansas due to its mix of farm, oil and aircraft manufacturing industries, whereas others are solely based either on agriculture or oil, he said.

Target arrived in Wichita in 1980 and now has two stores across from Towne East Mall and Towne West Mall, two major shopping centers. Other discount competition includes Abilene, Kan.-based Duckwall-ALCO, which has six stores in the Wichita market.

K mart considers Target its No. 1 competitor in the Wichita market, Keller said.

According to a new study conducted by Leo J. Shapiro & Associates, Chicago, for *DSN*, Target customers bring home a mean income of about $32,000, which closely matches the average income of $31,270 in Sedgwick County, according to CACI.

Keller of K mart likes the mix of high incomes in specialized aircraft positions because it gives the chain a good clientele for such higher-priced products as electronics, appliances, jewelry and cameras.

However, the average income in Wichita and Sedgwick County does not paint a totally accurate picture of the economy there, said Roland Smith, executive director of the Wichita Independent Business Association, a 1,300-member organization established in 1931. "There is a broad gap between the wealthy areas out east and west and the bottom end," Smith said.

For example, the median income of Sedgwick County (the figure at which half of all incomes are above and half are below) is only $27,808, which Smith said is a better reflection of market conditions. The median household income just for the city of Wichita, according to the Wichita Chamber of Commerce, is $17,214, well below the county median.

"We're finding that Wal-Mart is filling the gap between incomes in the market by offering low prices for minimum wage workers," Smith said. "It seems to be just what Wichita needed to fill the vacuum left by department stores when they upgraded business to name brands and higher-income customers," he added.

"Wal-Mart will probably become our main competition after its three stores are opened," Keller of K mart said. ALCO, even though it has six stores in the market—more than any other discounter—offers less problems for K mart, said Keller, who also noted that cataloger Service Merchandise is a competitive factor in electronics, appliances and jewelry.

Smith of the local business association said that Wichita consumers tend to shop specialty consumer electronics chains such as Silo and Federated before they will shop a discount store for electronics. He added that while independent pet stores have a good business in Wichita, Wal-Mart is making gains at their expense with its fairly large department of live pets and accessories.

The Dominant Format

He acknowledged that, on the whole, the discount store is definitely the dominant retail format, gaining market share from troubled independents.

For example, when K mart and Target decided to carry china in its stores two years ago with 25 percent or better pricing than independents, three small china shops in the area went out of business.

People shop at the Big Three discounters to find the lowest price, Smith said. He believes Wal-Mart's prices to be 5 percent to 10 percent less than K mart's and Target's on selected items in Wichita. He added that selection is also better at Wal-Mart than at the other two discount chains.

According to a *DSN* market basket of products carried by all three chains in the market, Wal-Mart was found to have the lowest price on 41 out of 68 items or 60.3 percent. K mart had the lowest price on 25 items or 36.8 percent of the total, and Target had the lowest price on only 16 items or 23.5 percent of the total.

The market basket survey, conducted in October by *DSN* editors, also showed that Target was the highest priced in the market on 42 items or 61.8 percent of the total. K mart had the highest price in Wichita among the three chains on 23 items or 33.8 percent of the total, and Wal-Mart had the highest price on only 16 items, or 23.5 percent.

MARKET BASKET: Wichita, Kansas

Prices on 68 selected products sold at all three chains

Product	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448	$ 25.99	$ 24.58	$ 25.99
Black & Decker 7¼-in. circular saw, No. 7308	28.96	31.96	31.99
Black & Decker ⅜-in. drill, No. 7143	25.97	21.96	26.39
Rayovac or Duracell battery, 9-volt, 1-pack	1.93	1.83	1.94
Gas can, 1-gal., metal, no vent	1.97[1]	1.86[2]	2.99[3]
House paint, 1-gal, acrylic, flat, exterior, white	11.97	10.44[5]	10.49[4]
Stanley saw, 26-in. 8-pt., No. 15350	7.97	7.96	9.99
Stanley Workmaster hammer, No. 51-042	11.14	11.26	12.99
Ivory conditioner, normal, 15-oz.	1.68	1.48	1.69
Agree conditioner, reg., 15-oz.	2.37	1.94	2.39
Head & Shoulders shampoo, 15-oz.	2.96	2.96	2.49
Bausch & Lomb Sensitive Eyes saline solution, 12-oz.	1.50[6]	1.50[6]	1.99
Advance pregnancy test kit	10.97	9.62	10.99
Tampax tampons, original regular, 40-ct.	2.42	2.77	3.19
Mennen Speed Stick, reg., 2.5-oz.	1.79	1.67	1.79
Crest tartar control toothpaste, 6.4-oz.	1.28	1.28	1.29
Colgate regular toothpaste, 7-oz.	1.59	1.48	1.59
Listerine, 32-oz.	2.97	2.97	3.19
Anacin tablets, 100-count	3.97	3.97[7]	3.19
Secret solid deodorant, 2-oz.	2.29	1.97	2.59
Gillette Foamy regular shave cream, 11-oz.	1.97	1.67	1.69
Vicks Nyquil Nighttime cold medicine, 10-oz.	2.19	4.84	4.49
Fram oil filter, No. PH8A	2.57	2.57	2.79
Armor All, 16-oz.	4.49	4.47	4.49
Turtle Super Hard Shell paste, 14-oz., No. T222	2.97	2.97	2.99
Borden Rain Dance paste, 14-oz., No. O245N	5.64	5.64	5.69
Gumout Jet Spray, 13-oz., No. 7450	1.64	1.64	1.69
AC-Delco spark plugs, 8-pack, No. 852	9.28	9.28	9.99
Prestone antifreeze, 1-gal., advanced formula	4.69	3.94	3.99
Pennzoil Multi-Vis motor oil, 10W30, 1-qt.	0.97	0.97	0.99
Champion spark plugs, 4-pak, No. 320	4.64	4.64	4.99
STP oil treatment, 15-oz., No. 3010702	1.39	1.38	1.39
Ford Motorcraft oil filter, No. FL400A	2.77	2.78	2.79
Texaco Havoline motor oil, 1-qt., 10W40	0.77	0.78	0.78
Wilson synthetic leather basketball, Pro 1000	11.97	19.96	9.99
Coleman standard 2-burner stove, No. 425F499	30.79	34.26	30.79
Wilson American Ace mid-size tennis racquet	29.97	19.96	24.99
Wilson tennis balls, official U.S. Open, can of 3	2.07	2.18	1.99
Spalding Top Flite golf balls, X-outs, No. 891505	8.96	8.94	4.98[8]
Paper Mate, Write Bros., 10-pak pens, medium blue	1.38	0.94	1.39
Sentry Fire Chest 1100	24.88	29.96	24.99
Kodak disc film, twin pack, 30-exp., 150/200	4.39	4.38	4.39
Polaroid Spectra System	127.97	127.67	139.99
Polaroid 600 film	8.47	8.47	8.29
Kodak color film, 24-exp., 35mm, ASA 100	2.39	2.38	2.49
Tonka bulldozer, No. 2961	14.97	13.97	14.99
Sorry board game, No. 0390	9.94	7.98	10.49
Scrabble board game, No. 17	7.86	8.63	7.99
Monopoly board game, No. 9	6.88	8.53	6.89
Nintendo deluxe video game	139.00	138.74	139.99
Persuader GI Joe tank set, No. 6038	9.97	8.93	9.99
Fisher Price Little People/Little Mart, No. 2580	13.96	13.94	11.99
Worlds of Wonder Lazer Tag, No. 360032-11	43.77	43.78	39.97
Yahtzee dice game, No. E950	4.96	4.44	4.99
Candyland board game, No. 4700	5.19	4.98	3.89
Alf doll, non-talking, No. 6601	22.97	24.92	24.99
Coleco Cabbage Patch Kid, No. 3900	24.97	18.96	18.99
Ideal Talking Big Bird	69.94	59.76	54.99
Prerecorded video, Disney Children's Classic	27.76	27.76	26.95
Compact disc	13.44	12.96	12.99
Album, single LP	9.47	6.96	6.99
TDK blank audiocassette, 60-min., 2-pak	1.97	2.27	2.39
Corning Visions, 6-piece set, V-300-N	28.96	28.96	34.99
Sunbeam Oskar, white, No. 14081	56.00	59.68	49.99
Oster Galaxy Cycle blender, No. 869-16	23.79	23.94	23.49
Mr. Coffee Automatic, 10-cup, CM-10	17.96	17.96	17.00
Rubbermaid twin sink dish drain, No. 1180	3.83	2.96	2.99
Ekco Bakers Secret, 6¼-in. by 9¼-in. loaf pan	1.97	2.46	3.49
TOTAL MARKET BASKET	**$1,010.44**	**$995.60**	**$993.60**
Lowest in Market	**25 items**	**41 items**	**16 items**
	36.8%	**60.3%**	**23.5%**
Highest in Market	**23 items**	**16 items**	**42 items**
	33.8%	**23.5%**	**61.8%**

[1]Eagle; [2]Stancan; [3]Coleman; [4]Glidden; [5]Lucite; [6]Two for $3; [7]Caplets; [8]$2.49 for 3-pak

Market baskets were conducted in October 1987 in area stores.

Source: DSN research

Innovation Propels Big Three to Forefront

K mart, Wal-Mart and Target have been the most emulated chains in the discount industry because of their merchandising flair. Despite widely disparate strategies, the Big Three of discounting have managed to race to the forefront of retailing with sophisticated merchandising techniques that are often copied by their peers.

"We seem to be the R & D for most of general merchandise retailing," commented K mart's marketing vice president, Michael Wellman.

K mart's development of power departments and attempt at achieving category dominance is unparalleled in discounting.

At the same time, Wal-Mart has experienced unprecedented success with its cheap and deep merchandising philosophy, noted for slick adjacencies and stack-'em-high displays.

Target, on the other hand, is the most department store-like, practically snubbing its nose at other discounters. Clean sight lines, ease of shopping, wide aisles and colorful displays have become synonymous with the upscale discounter.

> ***'If you want to look at the single best reason why a shopper comes to a K mart rather than a Wal-Mart or a Target, it's because we do a much better job in assortment, selection and variety of hard goods.'***
>
> —Michael Wellman, vp, marketing, K mart

"If you want to look at the single best reason why a shopper comes to a K mart rather than a Wal-Mart or a Target, it's because we do a much better job in assortment, selection and variety of hard goods, forgetting some of the stuff that Wal-Mart admittedly has a larger amount of, like candy and chewing gum, and that sort of stuff," said Wellman, when asked to compare the strengths of the three biggest discounters. "They're always looking at what we're doing in terms of hardware, paint, wallpaper, sporting goods, auto accessories, horticulture.

"Perhaps Wal-Mart has a bigger assortment of cleaning supplies. That doth not a strong hard goods merchandising program, in my estimation, make," continued Wellman. "And, there isn't anything in the Target strategy that says to the consumer, 'we're really hard goods driven.' It says, 'we're soft goods driven.' "

In apparel, K mart has remained with its traditional low apparel price points, but has steadily been adding more and more fashion-forward, higher-priced merchandise, while upgrading its apparel fixturing and displays. The aggressively expanding Wal-Mart, which has supplanted K mart in the markets in which they compete as the everyday low price leader, has also been upgrading its apparel selection, although Wal-Mart's apparel departments are still very much "narrow and deep," carrying far more of the basics than K mart, or any other major discounter. Target has positioned itself as the leading fashion-oriented discounter.

This fashion orientation carries over into domestics, where Target gets high marks for its display techniques, coordinated looks, and up-to-date assortments. K mart, in its newest units, presents towels by color rather than style and has more coordinated displays. Wal-Mart is noted for its quality product lines and low prices, but its presentation still leaves a lot to be desired when compared to the other two.

K mart's hard lines edge is clearest in hardware, where it has been leading Wal-Mart and Target in developing a stronger presence through the rollout of home care centers.

K mart has also been a leader among discounters in broadening its consumer electronics product mix to appeal to a more upscale customer. Of the Big Three discounters, K mart has made the strongest commitment to carry more high-end goods, and is closest to developing what chairman Joseph Antonini calls a "power department."

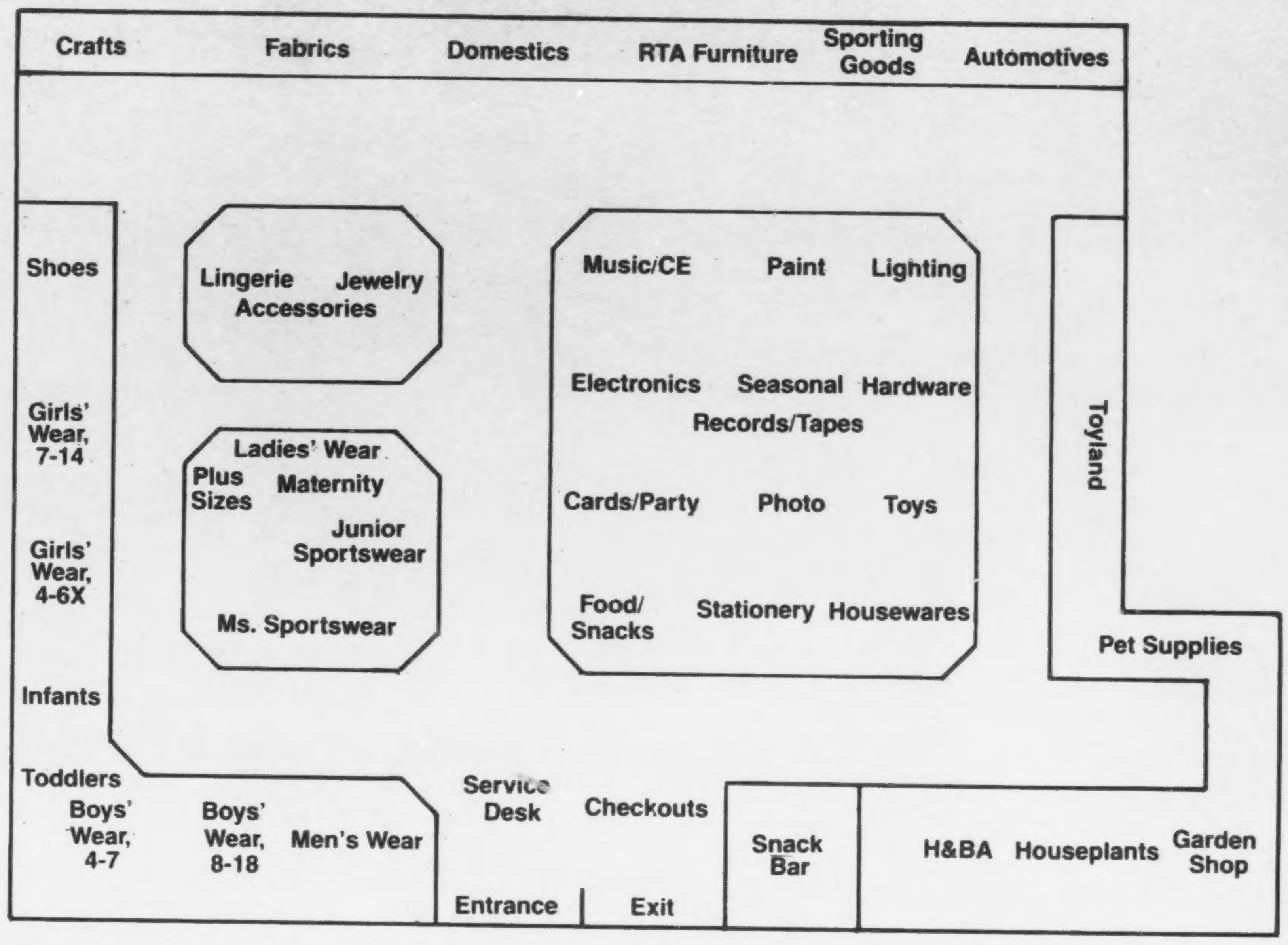
However, in auto parts and accessories, K mart's traditional dominance is challenged by Wal-Mart—the aggressive price leader in markets where it bumps heads with K mart and Target.

In health & beauty aids, Wal-Mart's everyday pricing cannot be beat, but Target's promotional pricing outshines Wal-Mart's. K mart's pricing was considered least aggressive of these retailers on an everyday basis, but nearly on par with Target during ad weeks.

Target is particularly strong in its presentation of soft drinks, but regular foodstuffs are not as im-

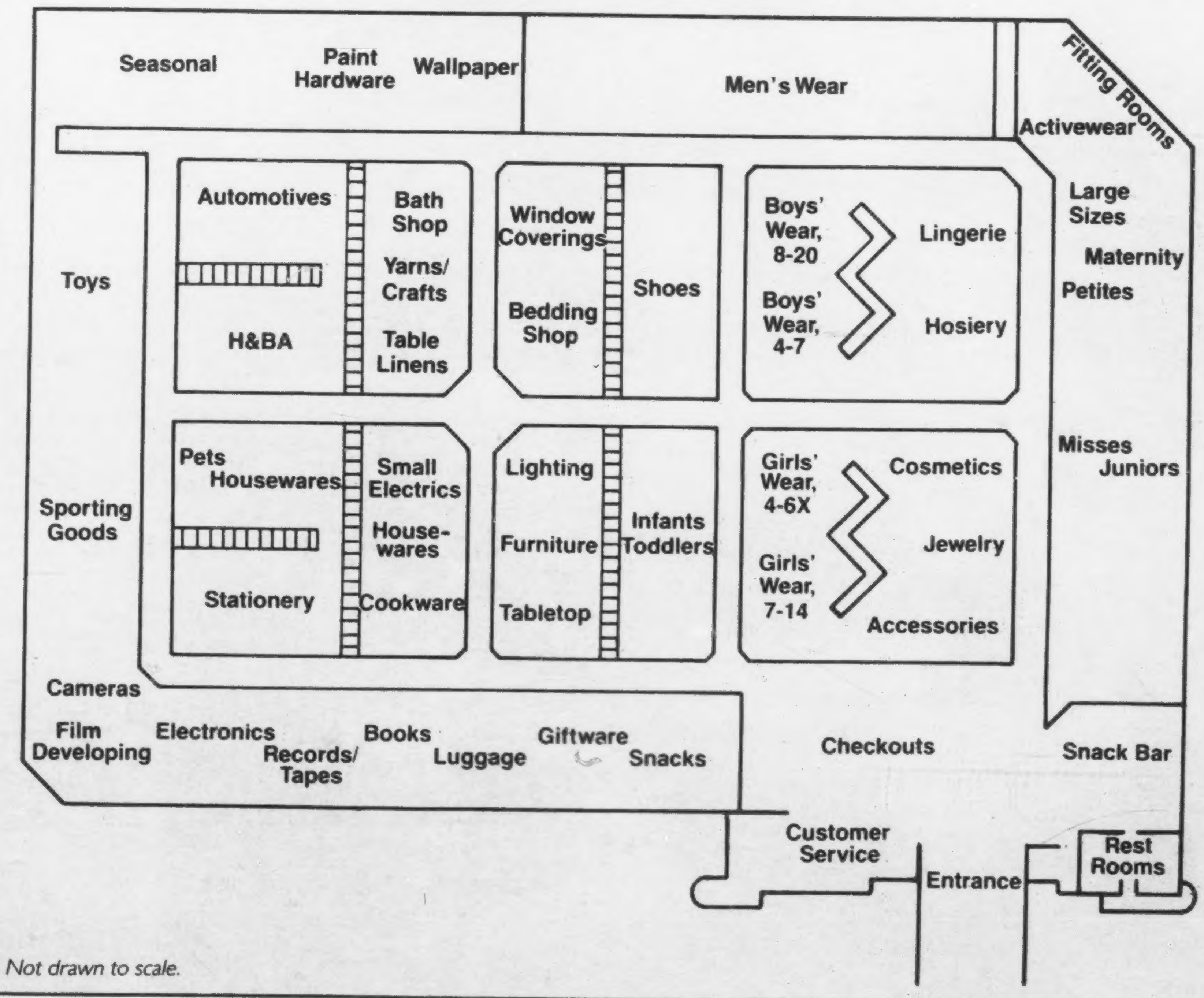
(Continued on page 135)

Wal-Mart, Wichita, Kansas


Crafts
Fabrics
Domestics
RTA Furniture
Sporting Goods
Automotives
Shoes
Lingerie
Jewelry
Accessories
Music/CE
Paint
Lighting
Electronics
Seasonal
Hardware
Records/Tapes
Toyland
Girls' Wear, 7-14
Ladies' Wear
Plus Sizes
Maternity
Junior Sportswear
Cards/Party
Photo
Toys
Girls' Wear, 4-6X
Ms. Sportswear
Food/ Snacks
Stationery
Housewares
Pet Supplies
Infants
Toddlers
Boys' Wear, 4-7
Boys' Wear, 8-18
Men's Wear
Service Desk
Checkouts
Snack Bar
H&BA
Houseplants
Garden Shop
Entrance
Exit

Not drawn to scale.

Target, Detroit, Michigan


Seasonal
Paint Hardware
Wallpaper
Men's Wear
Fitting Rooms
Activewear
Automotives
Bath Shop
Window Coverings
Shoes
Boys' Wear, 8-20
Lingerie
Large Sizes
Maternity
Toys
Yarns/ Crafts
Bedding Shop
Boys' Wear, 4-7
Hosiery
Petites
H&BA
Table Linens
Pets
Housewares
Small Electrics
Lighting
Infants Toddlers
Girls' Wear, 4-6X
Cosmetics
Misses
Juniors
Sporting Goods
House-wares
Furniture
Jewelry
Stationery
Cookware
Tabletop
Girls' Wear, 7-14
Accessories
Cameras
Film Developing
Electronics
Records/ Tapes
Books
Luggage
Giftware
Snacks
Checkouts
Snack Bar
Customer Service
Entrance
Rest Rooms

Not drawn to scale.

Innovation Propels Big Three to Forefront

(Continued from page 133)

portant and generally are purchased for special or seasonal promotions. Wal-Mart is strongest in name brand snacks, particularly confectionary, where it has recently made a major change in its presentation. And, nearly three years ago, K mart converted 30 to 40 of its cafeteria areas to specialty food and beverage departments, plus expanded the food area at 300 to 400 other K mart stores. All three have upgraded their confectionery presentations.

A consumer survey conducted for *DSN* by Leo J. Shapiro & Associates revealed that shoppers at Wal-Mart are more satisfied with the store than shoppers at K mart or Target. They have a higher opinion of the merchandise, are more confident of finding what they want, and feel that the store employees are friendlier and more helpful. With only minor exceptions, Wal-Mart was consistently rated higher than K mart and Target.

But, when Wal-Mart leaves its small-town home to do business in larger metropolitan areas, it is no longer a superior chain. In comparison to Target, which locates mainly in large metro areas, Wal-Mart rated lower on 10 out of 12 merchandise departments and in three out of four store attributes rated by consumers. Of the four store attributes (finding things you want to buy, finding good quality merchandise, prices, helpfulness and friendliness of store employees), Wal-Mart exceeded Target only in the rating of its store personnel.

Wal-Mart merchandise also does not hold up against K mart in metro areas of 1 million or more population. Consumers in these larger cities rated Wal-Mart lower than K mart on 10 out of 12 departments surveyed. However, Wal-Mart did garner higher marks than K mart on all four store attributes.

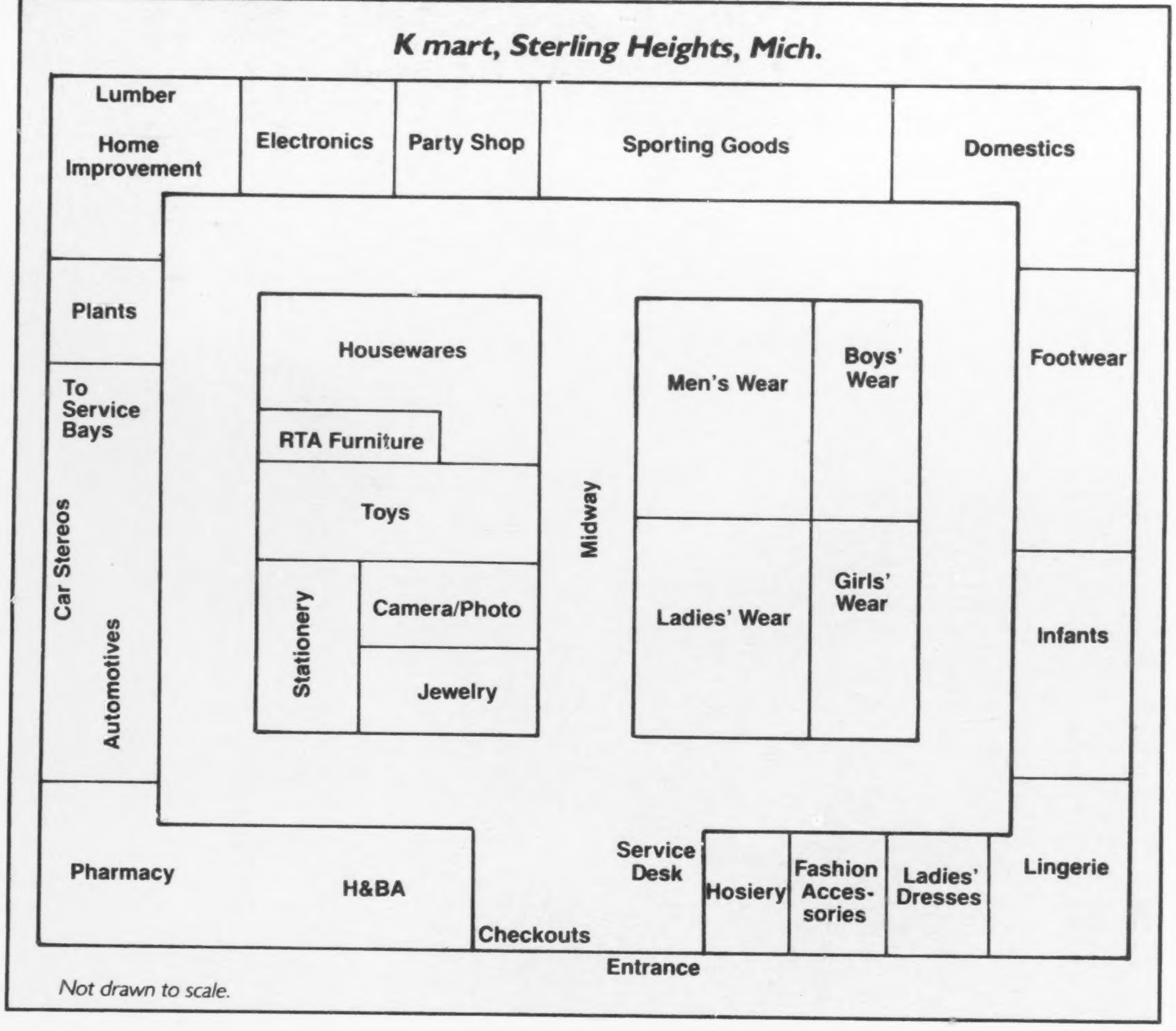
The excellence of Target can be seen in its superior ratings against K mart despite the fact that K mart merchandise is given higher marks than merchandise at Target. Target shoppers are more confident about finding what they want to buy than K mart shoppers. They also rated prices at Target better, supporting observations that K mart is trying to cash in on its well-earned reputation as, "the savings place," by now charging higher prices and squeezing more profit out of its sales.

Target customers are also more confident of the quality of merchandise at Target than are customers at K mart. Only in the area of personnel—helpfulness and friendliness—does Target lag K mart in the eyes of shoppers.

This strong overall view of the store exists despite an only even split on individual merchandise departments against K mart in metro areas of 1 million or more: Target does better in six product categories, K mart in six. In smaller metro areas, K mart merchandise rates almost uniformly higher marks from shoppers than Target merchandise. However, Target still holds the edge in a critical area—adult clothing, a product area that has been shown to make a disproportionately higher contribution not only to sales but to overall customer satisfaction.

K mart, with stores everywhere in big, middle and small-town America, is typically second best: beaten by either of the two other chains in customer satisfaction as well as in how much customers spend annually in the stores. In smaller (50,000 to 1 million population) metro markets, where K mart and Wal-Mart each serve about one-third of the total customers, K mart rates higher than Wal-Mart in only five merchandise departments, and lower in all four store attributes, including price. In large metro areas, K mart lags Target, and in small towns, the Troy, Mich.-based discounter trails Wal-Mart across the board in customer satisfaction. Even the few small-town residents who patronize Target—typically a half hour trip to the stores that are probably located in a nearby metro area—rate Target above K mart.

K mart, Sterling Heights, Mich.



Not drawn to scale.

39% of Target Shoppers Mainly Bought Clothing

What shoppers mainly spent their money on at the store during the past year

	K mart	Wal-Mart	Target
Clothing	34.5%	32.9%	39.4%
Shoes	2.9	2.7	1.5
Small Electric Appliances	2.5	2.6	3.2
Electronics	2.0	2.9	2.6
Housewares/Household Items	17.3	16.1	22.4
H&BA	12.6	16.3	13.8
Stationery/School Supplies	2.7	4.1	7.6
Tapes/Film	1.1	2.5	3.4
Infant Supplies/Formula/ Diapers	1.3	3.4	3.1
Pharmacy	3.0	2.3	0.2
Auto Supplies	10.5	9.4	10.8
Garden Supplies	10.6	8.9	5.1
Sports/Fishing Equipment	5.3	4.3	3.3
Gifts/Presents	2.7	2.1	3.3
Home Soft Goods (Domestics)	3.1	3.9	3.7
Toys	4.3	4.8	7.5
Hardware/Tools	6.2	4.0	4.3
Craft Materials	1.4	3.8	0.5
Cleaning Supplies	2.5	5.4	2.9

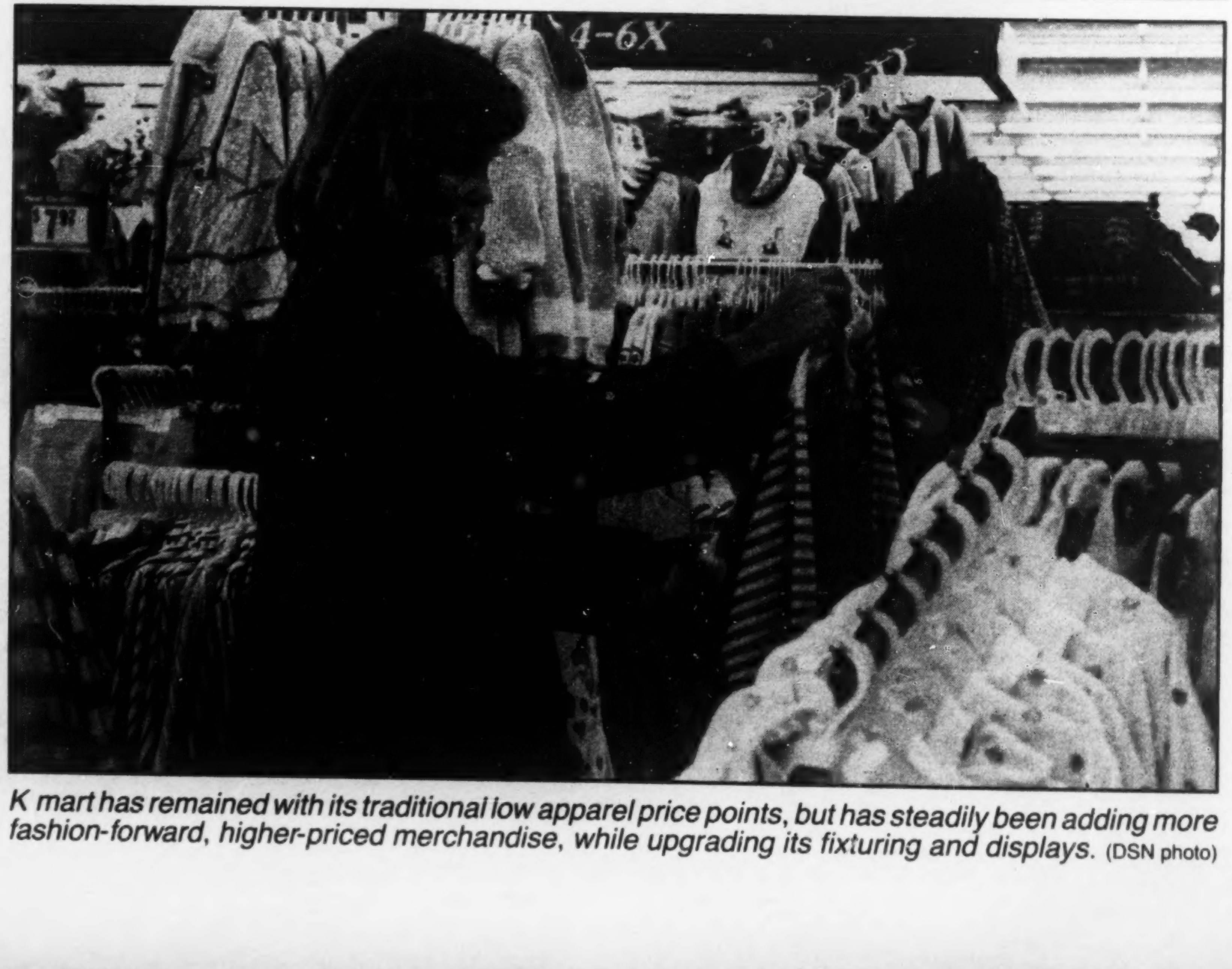
Source: Leo J. Shapiro & Associates/DSN, December 1987

Wal-Mart Is Consistently Rated Higher than K mart and Target

How shoppers rate various departments at the big three discounters
Mean ratings on scale of 1 to 9 (9 = outstanding)

Market	K mart	Wal-Mart	Target
Small Electric Appliances	6.52	6.88	6.35
Domestics, Sheets, Towels	6.71	7.01	6.37
Sporting Goods, Equipment	6.22	6.72	6.00
Lawn & Garden Supplies	6.86	6.45	6.25
Men's Clothing	5.52	6.00	5.50
Health & Beauty Aids	6.81	7.14	6.77
Toys	6.62	6.74	6.60
Children's Clothing	6.22	6.52	6.12
Women's Clothing	5.73	6.20	5.89
Housewares	6.80	6.99	6.82
Automotive Supplies	6.60	6.74	6.48
Hardware	6.51	6.67	6.22

Source: Leo J. Shapiro & Associates/DSN, December 1987



K mart has remained with its traditional low apparel price points, but has steadily been adding more fashion-forward, higher-priced merchandise, while upgrading its fixturing and displays. (DSN photo)

All Three Upscale Apparel to Varying Degrees

EXCEPTIONAL VALUE
Clearance
Our low prices just got lower!
Prices as marked
Clearance
12.00

Target is the most upscale of the Big Three in apparel mix, although they all have become sharper apparel merchandisers. (DSN photo)

While the apparel business strategies of the Big Three chains—K mart, Wal-Mart and Target—differ markedly, they all have been successful to date by becoming more sophisticated in the way they each tackle this high-margin segment of the market.

The critical importance of apparel at these discounters is buttressed by a study conducted this fall for *DSN* by Leo J. Shapiro & Associates, Chicago. The study, among other key findings, revealed that customers who say that they buy mainly apparel at the three discounters spend substantially more annually than customers who mainly purchase other kinds of goods.

In an attempt to attract more of their affluent customers to their apparel departments, these three giant discounters over the last several years have—to varying degrees—upscaled their apparel merchandise mix. Also spurring these discounters to upgrade is more widespread consumer knowledge and demand for more fashionable apparel.

K mart, the only one of the three that blankets the entire country with some 2,200 units, has remained with its traditional low apparel price points, but has steadily been adding more and more fashion-forward, higher-priced merchandise to its mix, while it is also upgrading its apparel fixturing and displays.

Wal-Mart Focuses on Basics

The aggressively expanding Wal-Mart, which has supplanted K mart in the markets in which they compete as the everyday-low-price leader, has also been upgrading its apparel selection, although Wal-Mart's apparel departments are still very much "narrow and deep," carrying far more of the basics than K mart, or any other major discounter.

Target, with significantly larger units (100,000 square feet on average) allowing for more apparel floor space compared to either K mart or Wal-Mart, has positioned itself as the leading fashion-oriented discounter, with its upgraded units having more of a department store feel than those of most discount stores.

As Wal-Mart and Target expand beyond their current markets, the big question is whether the two chains can remain focused on what they do best in their respective apparel businesses. Will they be able to attract that same customer type in new markets as successfully as they have in established markets, or will either or both chains have to tinker with their current strategies in order to succeed on a more national level?

The concomitant challenge for K mart is obvious: with Wal-Mart and Target expanding into more markets, will K mart's apparel business be squeezed between Wal-Mart on the low end and Target on the high end?

In response, K mart will have to develop even greater customer loyalty through emphasis on value and uniqueness. Putting together solid, attractive private label programs is one means to that end, since customers can't get that merchandise anywhere but in a K mart. The chain has been very successful to date in its apparel private label push.

Analysts, suppliers and other industry observers also say, not surprisingly, that in going forward, the Big Three will continue to rely on their respective apparel strengths.

K mart will continue to upgrade its merchandise mix and, several observers noted, will be going after the more upscale Sears customer. The immediate challenge for the Troy, Mich.-based chain will be to remain price-sensitive with respect to its core customer base while increasingly addressing the needs of a more fashion-minded customer.

Wal-Mart, observers say, will be continuing to expand so rapidly that it will have difficulty upscaling its apparel areas to any significant degree.

Analysts, retail consultants and manufacturers who sell to Wal-Mart also said that the Bentonville, Ark.-based discounter—which is the most price-sensitive of the three, regularly taking shorter markups in most apparel categories and lines compared to K mart and Target—would have to be very careful in any upscaling attempts.

They point out that, in many instances, today's Wal-Mart customer fits a similar profile as a K mart customer six to ten years ago, and that that customer—the least likely to be interested in fashion looks—is very price-sensitive.

Still others said that Wal-Mart has no intention right now to further upscale its apparel business. The emphasis, these observers say, will be on doing exactly what it is doing now on a national basis.

There are two schools of thought concerning Target. One is that the Minneapolis-based giant had overshot its core customer base in its aggressive focus on more and more fashion-forward apparel, and that it is retrenching and will not be increasing its fashion vs. its basic mix for the near term. This camp also mentions that, strategically, Target of late isn't being run as effectively as it could be. They point to Dayton Hudson's (Target's parent) upper management's distraction over recent takeover attempts, and the drain from its struggling sister chain, Mervyn's, as possible reasons for recent sluggishness.

The other school points out that Target, strategically, is right on "target," and that it does what it sets out to do as well as anyone.

Even Target boosters said the chain is having trouble getting the right kind of apparel merchandise in the huge quantities that are necessary, especially for its new converted Gemco units in California.

A spokesman at Target said the chain "is meeting the current level of interest of our customer" in terms of its fashion/basic apparel mix. "Our goal is to be as fashion-timely as possible, because our customer is aware of the latest trends, in soft as well as hard goods," he added.

K mart is edging closer to Target in terms of the emphasis that's being put on fashion apparel merchandise. K mart continues to address the more trendy customer with new private label programs started earlier this year, and it's devoting more space to growth apparel segments like petites and large sizes in women's, and big and tall in men's.

Also, K mart's newest test prototype, which so far has seen sales increases in most categories over the older design, represents an increased commitment to its apparel business, with all apparel categories centrally located in the middle of the racetrack (see story, page 144).

K mart has also been upgrading its store environment, approaching the sophistication level of Target. Increased apparel signage, much of it using four-color graphics and more upscale department store-like fixturing and display design, has contributed to a much cleaner, high-end look compared to the way many K marts looked just a year or two ago.

Target, however, with greater floor space on average than either K mart or Target, has the square footage to break out more apparel departments (separate junior fashion sportswear and young men's areas, for example) and hence is able to offer a more upscale environment. Target boasts carpeting along with department store-like expansive space between apparel racks and other fixturing. There is also extensive four-color fashion signage.

With K mart's aggressive upscaling, Wal-Mart now lags significantly behind K mart in terms of the look of its apparel department. The space between apparel racks in most Wal-Mart's is cramped, the only signage is of the strict price-oriented variety, and Wal-Mart is still into cheap-and-deep basics (with the exception of its toddler/children's department), with many racks of rigid denim jeans and bins of red and black checked flannel shirts.

The Shapiro study shows that consumers associate Target with apparel more often than K mart or Wal-Mart. It also revealed that 39 percent of Target shoppers say they purchased mainly apparel items over the last year, compared to 34 percent for K mart and 33 percent at Wal-Mart.

Apparel Sales Drive Target

Percent of shoppers who mainly spent their money on apparel at the store during the past year

	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)			
Clothing	27.3%	33.6%	35.9%
Shoes	3.4	4.2	1.3
In Small Metro Areas (Pop. 50,000 to 1 mil.)			
Clothing	38.4	30.4	47.0
Shoes	1.6	1.5	1.8
In Non-Metro Areas (Rural)			
Clothing	37.8	34.2	34.5
Shoes	4.2	3.0	1.4

Source: Leo J. Shapiro & Associates/DSN, December 1987

Target, Kmart Put Fashion First in Women's

SWEATS SWEATS SWEATS
ACTIVE FASHIONS
Wrangler
SALE

K mart is moving toward more circle racks, and wall fixturing is upscale in this women's department.

With women's wear being the most fashion volatile of all the apparel categories, it requires a more concerted effort than other apparel categories to remain up-to-date.

Not surprisingly, since Target has positioned itself as the leading apparel discounter, it is the most upscale of the Big Three in terms of fashion vs. basics in its women's wear mix, although K mart has been coming on strong over the last couple of years, especially with its more sophisticated private label programs.

It's interesting to note that, strategically, Target and K mart tackle private label differently.

Signature Collections

K mart has had tremendous success with its Jaclyn Smith signature collections in women's, along with Hunters Glen and other private labels, which are developed specifically for women's wear.

Target, on the other hand, merchandises its two big private label programs, Favorites (opening price-point basics) and Honors (higher price-point fashion), across the board. Those two labels appear throughout Target's women's, men's, boys' and girls' departments. The label, in the case of Favorites, can even be found on diapers and other non-apparel items.

Target has, though, recently started a new, high fashion private label, called Sostanza, which focuses on women's wear and accessories.

Emphasis on Fashion

With a much greater emphasis on more fashionable women's wear at Target and K mart compared to Wal-Mart, price points in women's and juniors' in general are closer between K mart and Target than between Wal-Mart and Target.

According to suppliers and retail consultants, Wal-Mart is not only lower priced on comparable fashion-forward looks, but Wal-Mart even outprices K mart and Target by several cents on the most basic commodities.

While Wal-Mart isn't as fashion-forward in women's apparel as either K mart or Target, Wal-Mart knows what its customers want and addresses their needs as sharply as K mart and Target.

This is borne out in the Leo J. Shapiro & Associates study conducted for *DSN*, which reveals that Wal-Mart customers rated the chain's women's wear department higher than K mart shoppers ranked K mart's women's apparel department and higher than Target customers ranked Target's women's department.

So it's apparent that—as much as, if not more so than at K mart and Target—Wal-Mart is in tune with its non-trendy female customer.

During recent visits to all three stores in one market, many of the differences between them were obvious.

Wal-Mart's women's apparel department (off to the left of the store entrance, as were all apparel categories) emphasized down-the-line basics, although there were such fashionable items as salt-and-pepper ladies' overcoats for $64.88, fancy sweaters for $17.97 and a display of fashion-colored sweats. This store also broke out a petite's area.

The signage in the woman's apparel department hawked low prices rather than using graphics to show off smart looking apparel items.

At K mart, Debra J. Grafton, vice president and general merchandise manager, ladies' and girls' wear, said that 1987 represented an important year for K mart's women's department.

Among the advances was the establishment of a year-round, full-figure department at all units, called Women's Sizes for the Contemporary Woman. Grafton said a senior buyer and other individual category buyers were brought on board this year specifically for the large size area. Brands such as Jordache and others were added during the year. She added that a private label line strictly for the full-figure department is in the works.

Grafton said large-sized women's wear represented the greatest sales growth this year over any other female segment or category.

K mart has also expanded its petite offerings, although a separate area with signage is presently in less than half of all units.

This year also saw two new fashion-oriented private label programs unveiled at K mart, the bigger being the chain's Weathered Blues-labeled casual sportwear, which K mart blitzed on the buying public with heavy advertising and upfront store displays in late summer. The Body Co., a line of exercise wear, also debuted in the summer, with a separate exercise wear area, including brands and private label, created in some units.

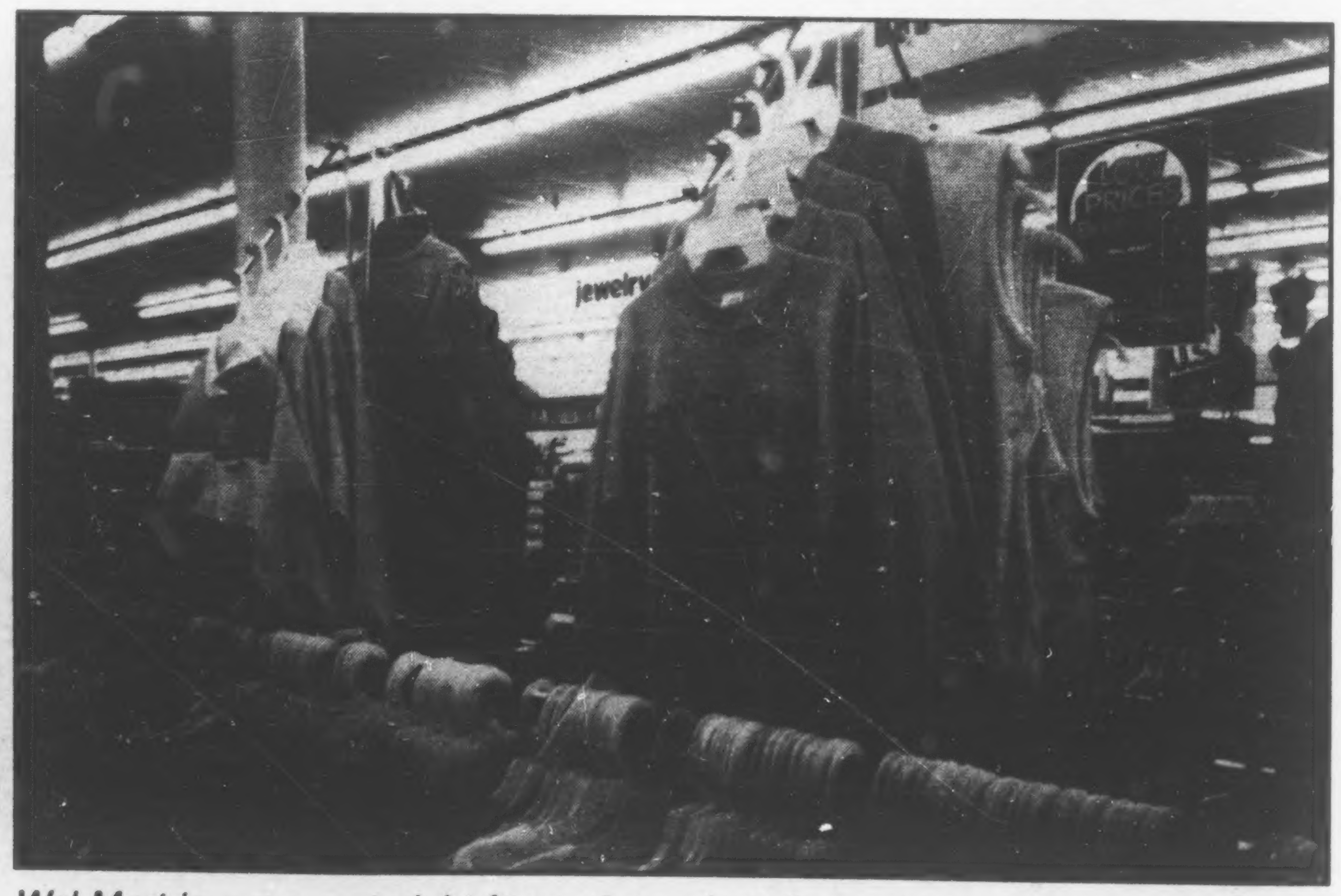
There was more in the way of new private label lines and increased store sophistication at K mart over the year than there was at Target. However, Target maintains a more upscale flavor in women's apparel than does K mart.

In merchandise, for example, Donna Rice's No Excuses stonewashed jeans were being sold for $24.99 at a Target visited this fall.

In general, the fashion-forward portion of the mix is still greater at Target, with more racks of acid-washed jeans and short skirts and fancy sweaters and fleece than at K mart, although there's much duplication in brands—especially in bottoms—between K mart and Target, with price points on similar models very competitive between the two chains.

VALUE
VALUE

Sophisticated grid wall fixturing featuring fashion-colored fleece highlight the women's area of this Target.



Wal-Mart is a more straight-forward merchandiser, with long racks and no-frills hanging tops above many of the racks.

(DSN photos)

More color signage, coordinated looks and partition fixturing are part of the total, upscale look that can be found in the men's wear department at K mart.

K mart, Target Take Lead In Discount's Fashion Push

All three chains are addressing a male customer—or the female customer shopping for a man—who is now paying more attention to fashion than ever before.

Naturally, Wal-Mart has been the least active in this area. Prices and merchandise are still "down and dirty" at Wal-Mart, based on in-store observations and according to some suppliers and retail consultants.

A couple of manufacturers who supply all three chains in the men's segment said that Wal-Mart regularly takes a markup in the area of 34 percent on many lines, compared to markups in the 40s at K mart and Target.

These suppliers also said that, as far as they're concerned, Wal-Mart is much more efficiently run than either K mart or Target. These suppliers also spoke of "a more rural mentality" throughout Wal-Mart's operations, which they said translates into more people on the floor at store level compared to an average Target or K mart, and with Wal-Mart's floor sales force more willing to help the customer than sales help at the other two chains.

However, it should be noted that many of the suppliers *DSN* talked to in the men's segment did most of their business with Wal-Mart. Among these suppliers, K mart was No. 2 in dollar business and Target third.

Another supplier said that he likes to see his merchandise in Target, but it buys more selectively from an average line than K mart or Wal-Mart, hence he actually does more business with the latter two.

Target tends to do more cherry-picking of lines than just going forward with an entire line, this supplier said.

One supplier said that he sells acid-washed jeans to Target and canvas fashion bottoms, knit tops and sweaters to K mart and Wal-Mart. This manufacturer predicted his business will be growing most with K mart and Wal-Mart.

On display at a Wal-Mart's men's department visited this fall were rigid denim jeans, basic flannel shirts ($6.47 in bins) and basic work-type shirts (dark brown twills in short sleeves for $8.73).

In jeans, Wal-Wart is heavy in such basic labels as Branders ($9.97) and Wrangler ($15.76 for a rigid basic). Jeans are merchandised out of wood cubes and on plastic hangers.

Also, men's apparel was more dispersed throughout the store at Wal-Mart compared to the others. While there were a few activewear items and some hunting apparel in the sporting goods department at K mart, there was much more apparel merchandise in those hard goods departments at Wal-Mart. Such a strategy could be seen as less of a commitment to men's wear compared to K mart, and certainly less than Target.

Wal-Mart's Ratings Good

Yet, as in women's wear, Wal-Mart customers shopping the men's department rated it higher than K mart shoppers rated K mart's men's department and higher than Target shoppers rated Target's men's department.

At K mart, Bill Underwood, vice president, general merchandise manager for men's and boys', said, "We continue to upgrade our merchandise mix to meet the demands of our fashion-conscious customers. We're taking more 'dangerous' fashion gambles than we have before."

Underwood said that bottoms and big and tall have been particularly strong areas in men's wear this year.

He pointed to the upgrading of bottoms—looks like pigment-dyed canvas instead of racks and racks of basic twills, as well as acid-washed jeans—as reasons for the growth.

Underwood also said the chain has gone from no pleats in mature men's to 30 percent pleats, and to almost 100 percent pleats in young men's styles. He said he's also adding new polyester/rayon forward looks, as well as all wools to his bottom mix.

In the growing big and tall area, he said a separate buying department has been created and a specific buyer with his own purchase allowance was added this year. A good mix of fashion has been added all year to the big and tall mix, he said.

Right now, big and tall are in all stores, from two circle racks to 100 square feet, depending on space, said Underwood. He added that starting in the spring, there will be specific advertising in all stores for big and tall to alert the customer.

Underwood addressed the essential K mart merchandising strategy in apparel when he explained that "We can't afford to walk away from pricing or to be a season late fashionwise."

Target, like it is in women's, is heavier into fashion in men's than is K mart.

Even in dress shirts, Target not only carries a greater percentage of fancies compared to basics, but the shirts are merchandised in more attractive glass cubes.

Target also recently began a new private label program, called Greatland, which focuses on men's fashion outdoor wear.

More creative wall-fixturing and wider, more department store-like aisles differentiate Target from its competitors.

LOW PRIC
Every
jr. sport
We Stan
Discount Special

Bins of apparel still characterize the Wal-Mart look. This discounter remains heavily into the basics, like jeans and flannel shirts.

(DSN photos)

Wal-Mart Closes Fashion Gap in Children's

While infants', toddlers' and children's wear is not as profitable a segment as men's and women's, the volume is big, and all of the Big Three discount chains are paying more attention to the categories.

Wal-Mart, K mart and Target have upgraded their merchandise mix as well.

Specifically, Wal-Mart, based on in-store observations and interviews with suppliers and retail consultants, has upscaled its infants' & toddlers' department (to a lesser extent its girls' and boys' departments) more aggressively than it has its men's and women's areas over the past couple of years.

Toddlers' Wear Lines

More toddlers' wear suppliers said they sold the same lines to all of the Big Three discount chains than did suppliers in men's or women's. In other words, Wal-Mart, at least in terms of its fashion toddler merchandise, is closer to Target and K mart than it is in other categories.

For example, Wal-Mart carries the upscale French Toast label, which can be found not only in Target but also in Macy's and Bloomingdales department stores. There is no comparably upscale label in men's or women's that Wal-Mart carries.

Wal-Mart's infants and toddlers' department is also disproportionately large compared to its men's and women's departments.

Suppliers point, once again, to the more rural mentality at Wal-Mart. In addition, these suppliers, at least, feel that more mothers shop with more frequency for their young children at Wal-Mart than at K mart or Target.

Some suppliers also pointed out that Wal-Mart established the credibility of its low price-point toddlers' and children's segment with price-conscious mothers. And now these suppliers feel they're in a position to cash in on that loyalty by adding more upscale merchandise to the mix.

The Leo J. Shapiro and Associates consumer study conducted for *DSN* points to the particular strength that Wal-Mart has in infants' apparel. While more consumers said they shopped more for adult and children's apparel at Target and K mart, the study revealed that more Wal-Mart customers said they mainly spent their money on infants' apparel than did K mart or Target shoppers.

All three chains are carrying the latest all-cotton, pigment-dyed bottoms and coordinated sets in toddlers' and young girls' and young boys'. Also, screen printing on fleece is something that all three chains are into.

K mart even added an in-house designer to come up with original print designs and to work with the manufacturer on certain toddlers' wear lines.

In addition, the influence of young men's styles on boys' wear and juniors' on girl's wear has made the children's segment a more fashionable segment—and a higher margin segment—than it was a couple of years ago.

In terms of sourcing, more children's apparel is sourced on shore compared to men's and women's because expensive unit quota is not going to be used for lower price point categories.

At a K mart visited this fall, there was a boys' grouping of Safari Express fashion apparel, with a Banana Republic-type feel to it.

There was also a lot of licensed apparel, including GI Joe and Disney in fleece prints.

The K mart also had groupings of denim jeans with a soft brushed flannel lining with rolled cuffs in the toddler girls department.

At Wal-Mart, in the same market, there were less coordinated outfits in this segment, but the infants & toddlers department was large, with much more space between racks than in its men's and women's departments.

Prices, in general, were lower at Wal-Mart, with some fancy sweaters priced at $6.96, and toddlers bib overalls priced at $15.97. Wal-Mart had toys in the middle of this department.

Wal-Mart also carried Klifton Kids fancy fleece tops priced at $7.86. And junior boys' two-piece fleece sets priced at $8 were part of this particular unit's 25th anniversary sale signage in the front store window.

Target, still the most upscale in merchandise and presentation, featured specific girls' sizes 7-14 and sizes 4-6X groupings and signage, instead of just girls' in general.

There were Lee Riders stonewash trim fit jeans, $14, for girls, and Gitano frosted denim jeans, $19.99.

In infants & toddlers, Target had Small Stars (division of Mayfair) cute overall sets priced at $9.99, and Lee toddler bib overalls for $13.99.

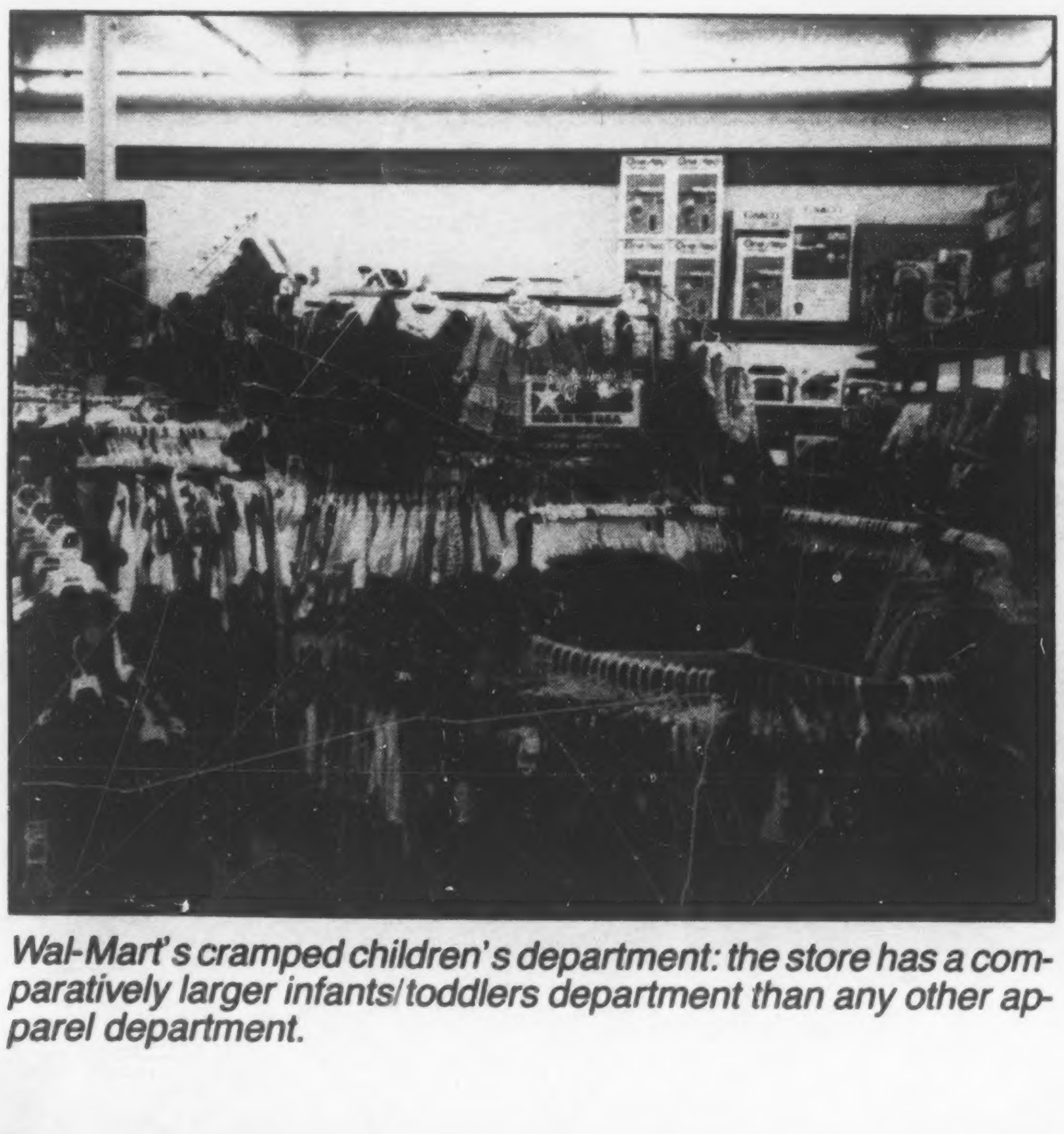
In addition, there was four-color Coca-Cola signage for fleece tops for girls.

Groupings for newborn girls and boys were also found at this Target, something the other two discounters didn't break out.

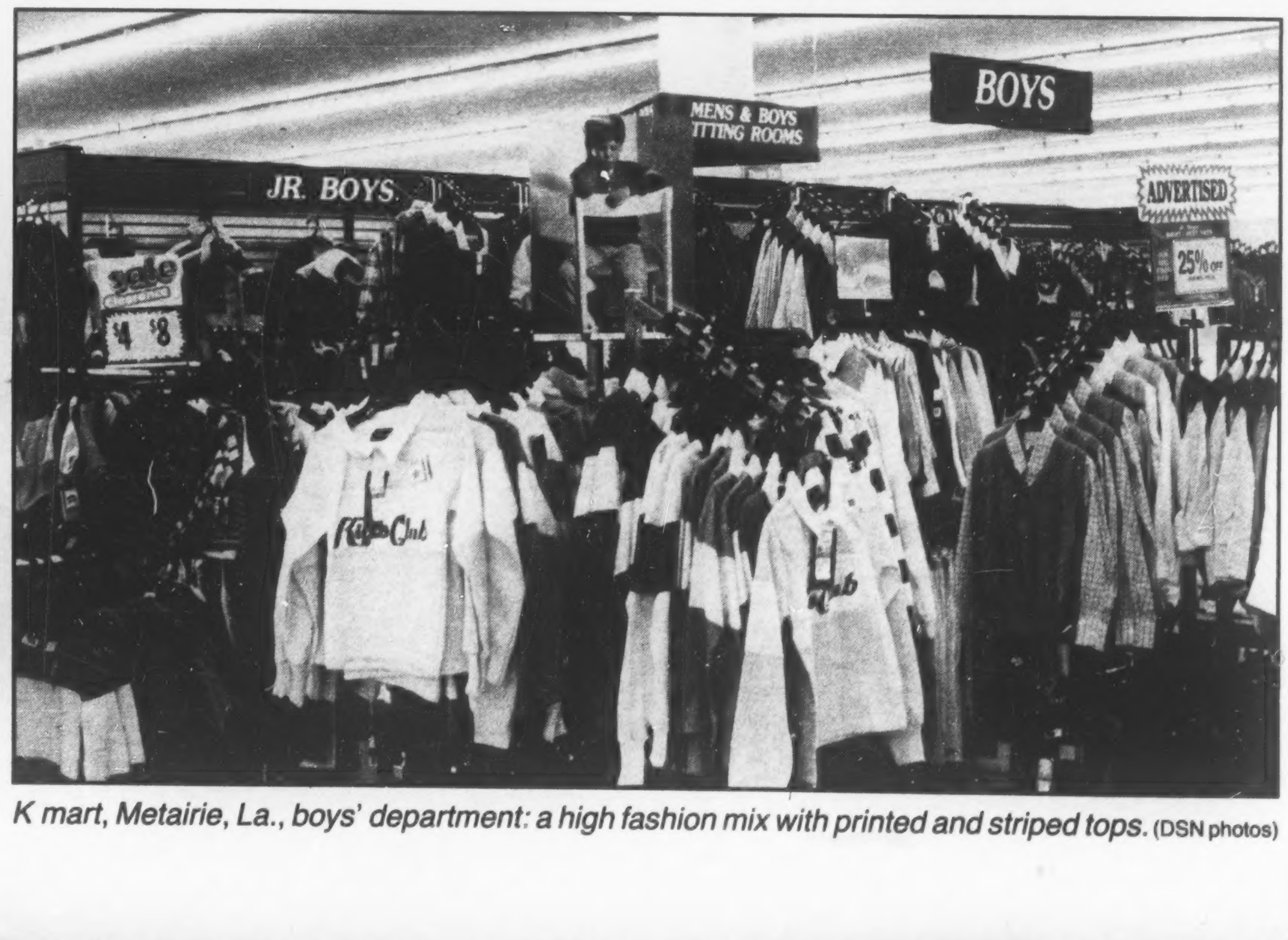
Other merchandise included Lee Rider straight leg jeans for boys for $15.99, and U.S. Blues-labeled "Top Gun"-type outerwear with patches price at $20.99.

Boys Wear
7.99
9.99
VALUE
6.99

Target breaks out junior boys' from boys' wear, with a lot of fashion variety in the merchandise mix.



Wal-Mart's cramped children's department: the store has a comparatively larger infants/toddlers department than any other apparel department.



K mart, Metairie, La., boys' department: a high fashion mix with printed and striped tops. (DSN photos)

New K mart Prototypes Rack Up Sales Gains

The Piqua, Ohio, K mart prototype, with all apparel in the infield of the racetrack, has seen sales jump 15 percent to 25 percent.

Sales at the two new K mart test prototypes have jumped by 15 percent to 25 percent, depending on the department, according to the sales managers of both stores.

The two mid-sized units—Piqua and Lima, Ohio—reopened Oct. 9, sporting a revamped racetrack layout that features all apparel categories in the infield.

The new store design allows for an increase in apparel square footage, with apparel—including footwear—now taking up one-third of total selling space.

The new layout gives the impression of even greater apparel emphasis, with the center of the racetrack dominating the store.

Customer reaction has been overwhelmingly positive, discounting the initial confusion about where certain items could be found, said Larry Banaszak, the Piqua store manager.

The eight-year-old Piqua store has 59,512 square feet of selling space, and the four-year-old Lima unit has 54,000 square feet of selling space.

Banaszak told *DSN*, "The store looks totally different, from the new peach-colored walls to much more signage. The customers love it. We're selling things we never sold before."

Banaszak added, "I would think they're [K mart] going to go ahead with it [the prototype rollout]."

Among the departments scaled back to make room for the added apparel were home improvement, health & beauty aids and hardware. The stores' auto service centers were eliminated.

The highlights of the new layout include wider aisles, smaller endcaps and more upscale fixturing.

The infield consists of four islands, with three aisles dividing each island. Within each island is a tall and wide wall fixture, allowing for creative apparel displays.

Steve Pocza, the Lima store manager, emphasized that the new layout allows no hidden departments. "With the old store—which had all apparel on the left when you walked in and all hard goods on the right—we had to direct the customer to go two counters down, make a right, and go another two counters down, to get them to a department they were looking for. Now the racetrack passes every department. We just send the customer around the track. It's much more convenient for everybody."

Pocza also said that before the conversion, apparel utilized about 28 percent of the floor space, and he said apparel "was not meeting its sales-per-square-foot goals."

Since Oct. 9, such goals are now being met, he said, adding that some apparel categories have seen close to a 30 percent sales jump over the last two months.

John Rocholl, apparel manager at the Piqua store, said signage has been increased. He said there are now at least 60 graphics in the apparel area. Banaszak also added that 20 store employees have been added since reopening.

However, to get a more accurate sales comparison, local print advertisng was not increased after the reopening.

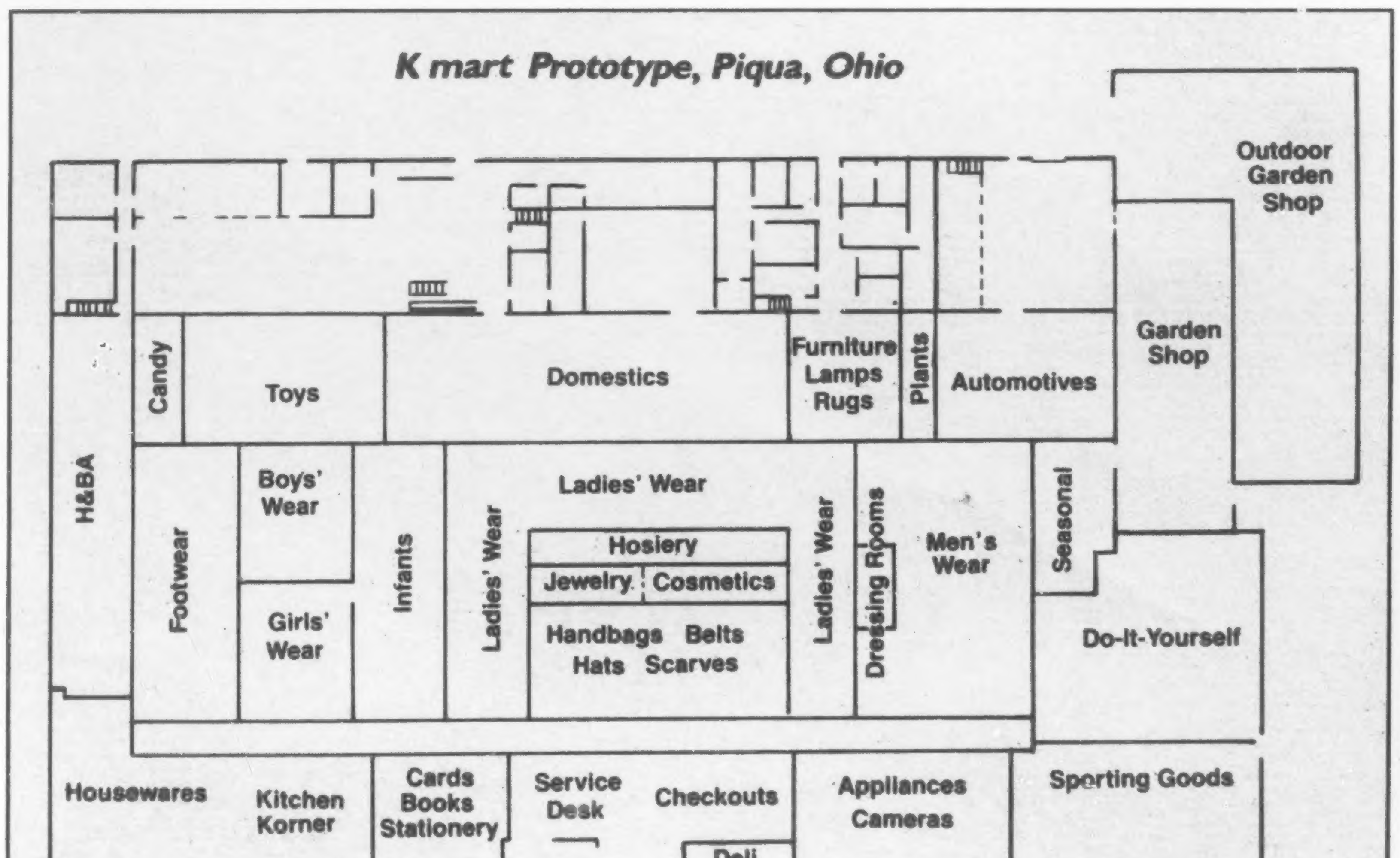
Banaszak said that while 90 percent of the merchandise is the same, there was some upgrading of the mix, especially in apparel, since the reopening. Higher fashion looks like acid-washed denims in men's and women's were increased, said Rocholl.

Pocza in Lima said that such apparel brands as Bugle Boy and O.P. were added for the prototype test.

Banaszak said a new K mart, nine miles up the road from his Piqua store, in Sidney, will open Nov. 28. While it's a full-sized, 89,000-square-foot store, he doesn't expect any problems maintaining his customer base in Piqua. The new Sidney store, a former Cook's unit, does not feature the new prototype test layout.

K mart officials said two months ago that if the test at the two Ohio units was successful, the new store design would be rolled out in all 500-plus Group 7, or midrange, units.

The discounter is also continuing to refurbish existing stores, and in the process adding about 4,000 square feet of apparel space.



K mart Prototype, Piqua, Ohio

K mart's Jacyln Smith signature collections are prominently positioned at the entrance to the remodeled Piqua, Ohio, store; fashion sweaters and tops abound. (DSN photos)

Presentation Is Key for Domestics at Big Three

SALE
Santa Cruz Towels
2.49
1.99
1.19
SALE

Target's 'trend merchandising' approach to domestics requires that the discounter change its assortments several times a year.

The battle of the top three discounters in domestics will probably be carried out more on endcaps and wall displays than at the cash registers over the next few years. K mart, Wal-Mart and Target all have roughly equivalent name brand products and prices, but there is a distinct difference in their merchandising approaches which will ultimately affect profitability.

In the past year or two, consumers have come to demand more than rock-bottom price. They are looking for top name brands and luxurious thread counts in sheets and towels, which Target, K mart and Wal-Mart all can supply. But they are also now looking for a more fashion-forward environment in which to shop, sending discounters into a paroxysm of store design activity.

What was rapidly becoming a strictly commodity department may have been saved by this new consumer orientation, as shoppers have shown that they'll pay more for fashion—and are more likely to have confidence in a retailer's fashion sense if it provides an appropriate presentation.

The issue, according to a major supplier, is now who will establish a greater level of consumer confidence in discounters' fashion sensibility. "All three do a good job of buying the best products at the best price," he said. "But Target has done the best job of presenting its assortment in a mass merchandising context."

He points to Target's "trend merchandising," changing its assortments several times a year to keep up with the latest styles and colors. "Target has also been very good at selling coordinated looks, which builds consumer confidence in the stylishness of the whole department." He also gives Target high marks in display techniques and fashion credibility.

K mart, in its newest units, is taking a modified approach to the presentation issue. "They're presenting towels by color rather than style and doing a lot more in coordinated displays," one source said. "Most mass merchants have upgraded their presentation along with the products they sell, and K mart is among the best at merchandising." Said another, "K mart has also kept up its promotional image, and its Cannon Weeks have been terrifically successful, selling upward of $60 or $65 million each time. It has combined price and fashion very well, although it might be going too far upscale."

Wal-Mart gets very high grades for its product lines and prices, but its presentation leaves a lot to be desired, according to one manufacturer. "In bedding and bath, Wal-Mart is tops, with its $3 and $4.99 towels; it has the best products. They also have the best-developed percale sheet program in the industry. However, it's obvious that they have chosen not to spend their money on display." However, another supplier noted that "Wal-Mart, with its Common Sense program developed with Stevens and Cannon, is sticking to its best buy approach; it has added eight to 12 endcaps for fashion merchandise, but that's about as far as it goes."

The display issue is particularly crucial and timely in the discount world, as mass merchandisers fight for an increasingly fashion-conscious domestics dollar. Department stores have traditionally beaten discounters badly in public perception in this area because of their attention to carrying top brand names and promoting the fashion aspect of their products.

Discounters have cut into the market by matching department stores brand for brand, but have not been able to get consumers to trade off fashion security for price only. Further, linen specialty shops have been very successful in tapping into discounters' market shares.

"It's a struggle to keep this area profitable for merchants," one supplier said. "The key to maintaining margins is offering a fashion-forward image, a total coordinated package and fair prices. Gold Circle is doing a terrific job in presentation, and Target is right behind them."

Spending a lot of time and money on display is anathema to Wal-Mart, but as the chain continues to move into larger markets, it will probably find it necessary to add some razzle-dazzle to remain competitive with its more fashion-conscious opposition.

A spokesman for a leading manufacturer said that display and presentation will continue to rise in importance even more as the consumer becomes better educated about the product. "All this thread count information is confusing people," he said. "We have everything from 120 up to 250, but the consumer really doesn't know what it means. She has been flooded with new packaging and an overabundance of information.

"What she's looking for," he continued, "is attractive, styl-

(Continued on page 148)

PIMA Cotton
$4.96
$4.96

With superior product and low price, Wal-Mart often offers the best values in bed and bath. But, its presentations often suffer in comparison to the more fashion-oriented discounters. (DSN photos)

Wal-Mart Excels in Domestics

Percent of shoppers who mainly spent their money on domestics at the store during the past year

	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)			
Home Soft Goods (Net)	3.8%	4.3%	4.2%
Towels	1.7	2.3	2.6
Linens/Bedding	1.8	4.3	2.4
Drapes/Curtains/Blinds	0.0	0.6	0.0
In Small Metro Areas (Pop. 50,000 to 1 mil.)			
Home Soft Goods (Net)	3.1	6.1	3.8
Towels	1.6	2.4	2.2
Linens/Bedding	1.7	3.7	0.7
Drapes/Curtains/Blinds	0.7	0.0	1.5
In Non-Metro Areas (Rural)			
Home Soft Goods (Net)	2.2	2.5	1.7
Towels	0.6	1.4	0.0
Linens/Bedding	1.6	1.2	1.7
Drapes/Curtains/Blinds	0.6	0.0	0.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

Presentation Is Key for Domestics at Big Three

(Continued from page 147)

ish products that represent a good value."

Another manufacturer agreed, adding that the result will be more textured looks and less emphasis on solid color towels. He said that several retailers, most notably Gold Circle and Target among discounters, have done a good job of combining the traditional mass merchandise approach of plenty of stock and cheap prices with a more fashion-forward look to their departments.

All three chains are heavily brand-driven, as consumers have become increasingly unwilling to buy anything but top brands in domestics and linens. However, each chain has distinct preferences among top brands.

For instance, perennial market leader Cannon, a discount staple, was a hit with K mart and Wal-Mart store managers, but did not fare as well with Target managers, according to *DSN's* 1987 Top Brands survey, released earlier this year.

J.P. Stevens, the second most popular brand name overall among discount store managers, reversed the field, scoring well with Target managers and poorly with both K mart and Wal-Mart, even though Target has reportedly cut back its commitment to Stevens and Wal-Mart has stepped up its buying from the company.

St. Marys, like Cannon primarily a discount brand, scored well with discounters as a whole, but did poorly with all three of the leading chains.

Pepperell, which was described by two manufacturers as coming on strong at Wal-Mart, did not receive a single mention from that chain's managers, but scored well with managers at Target.

While most suppliers seemed to feel that the Big Three will have to become more fashion conscious, one noted that "we propose, they dispose."

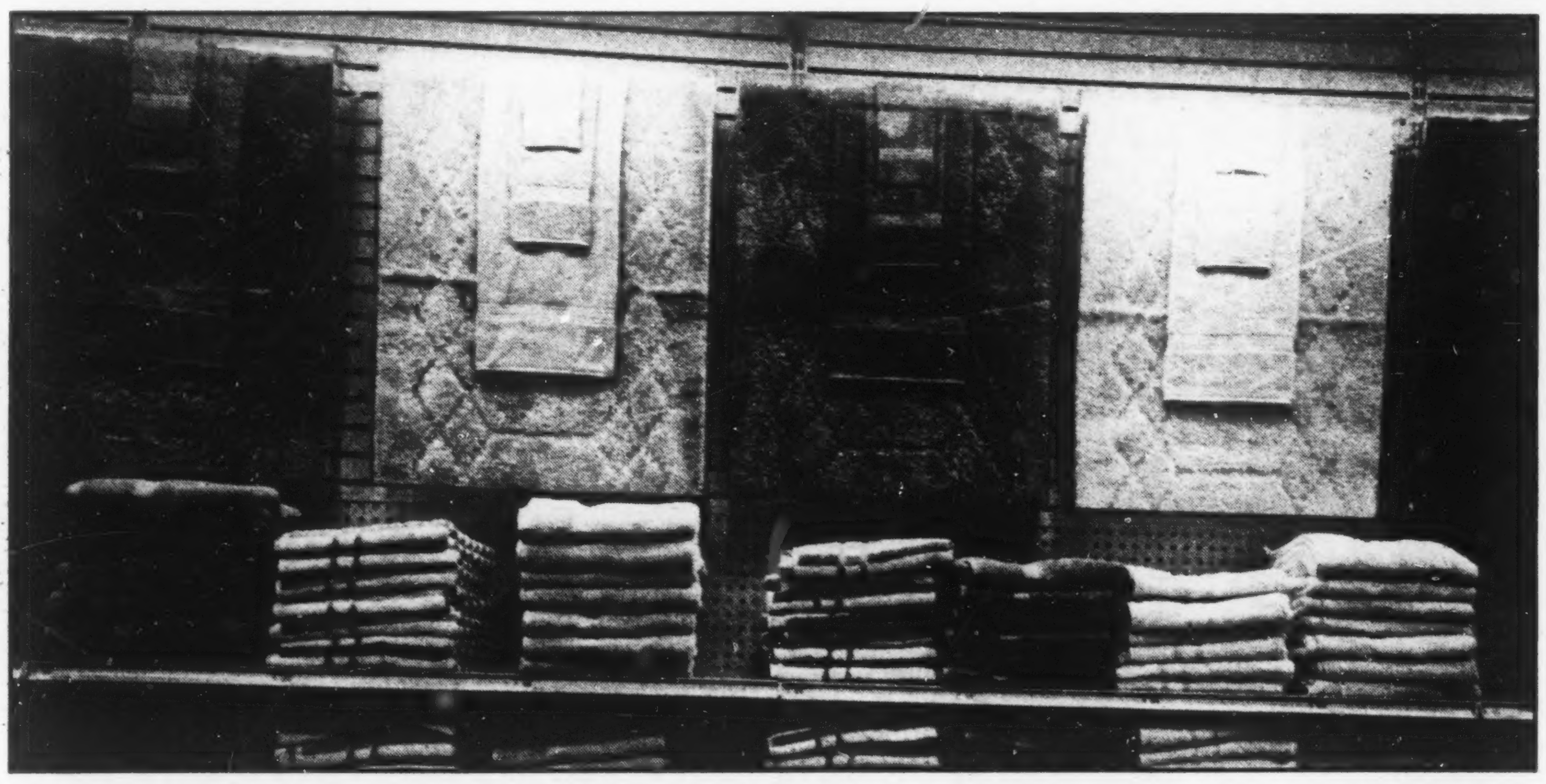
K mart and Target are clearly trying to upgrade their shopping environments while retaining the approaches that have been successful for them over the years. Wal-Mart, however, seems to have done fairly well to date without making a fashion statement.

Nevertheless, the acceleration of consumer expectation of high fashion in the home, presaged by the refueling of interest in interior design, wallcoverings and other home fashions, will eventually bring pressure to bear on all discounters.

And, since discounters are best known for giving the public what it wants, expect to see more discounters taking the fashion-forward road.

SHOWER CURTAINS
TOWELS

In its modern units, like this one in Sterling Heights, Mich., K mart presents towels by color rather than style. The chain has upgraded product and presentation, while keeping a promotional image.



'The key to maintaining margins is offering a fashion-forward image, a total coordinated package and fair prices,' said a supplier. This Target in Detroit scores on all three counts. (DSN photos)

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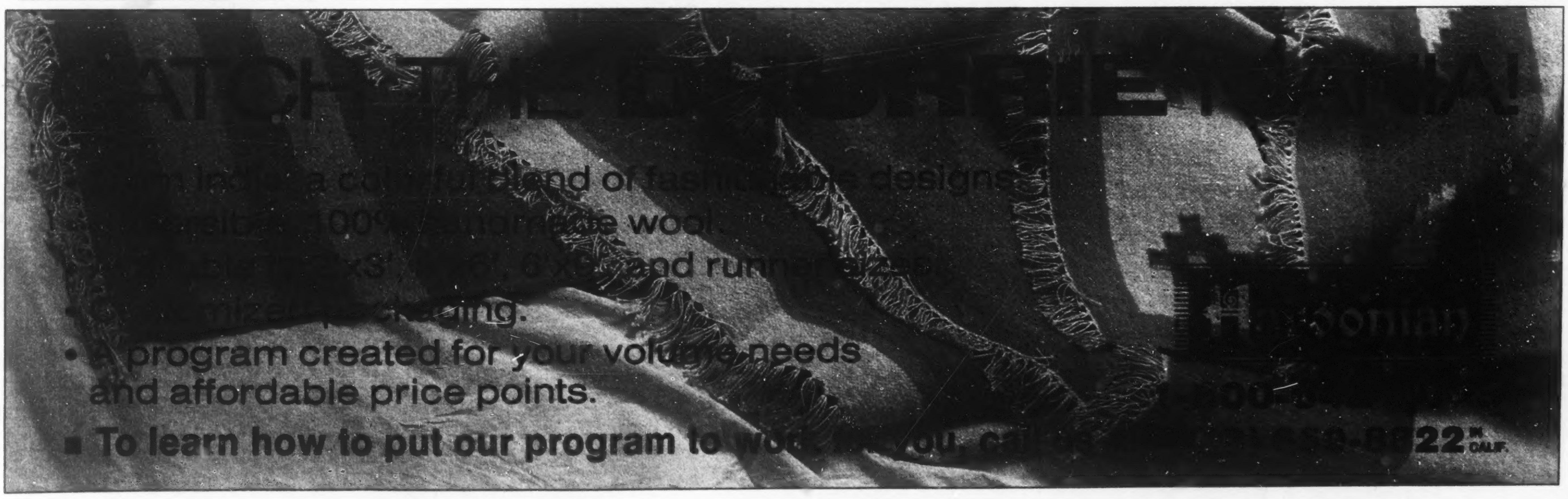
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IN CALIF.

Housewares Mirrors Overall Chain Strengths

Given the opportunity to candidly appraise their key accounts, housewares vendors independently confirmed what have long been viewed as virtues of the nation's three largest discounters: K mart is usually the housewares promotion king; Wal-Mart is tops in aggressive everyday low pricing on most housewares merchandise; and Target is closest to the cutting edge of housewares fashions. But each chain has its shortcomings, vendors admitted.

K mart lacks aggressive everyday low pricing, timely response to market fashion trends in housewares and an understanding of what really happens at store level due to the enormous size of the chain.

K mart's size was paradoxically viewed as both a major asset and a stumbling block. The chain has certainly become more widely known than any other general merchandise retailer due to its greater number of stores. In addition, the creation of Kitchen Korner has drawn attention to its housewares assortment.

Long-Tailed Dinosaur

Nonetheless, one vendor summed up the sentiment of his peers when he compared the discounter to a dinosaur with a long tail. "Someone at store level taps him at the end of his tail to tell him something he needs to know, but by the time the information gets from the tail to the brain, a lot of time has gone by."

Advanced information technologies now being devised at headquarters could resolve some of the shortcomings of bigness in the future. Near at hand is the sprucing up of its housewares appearance.

A revitalization of K mart's fashion image in housewares is now underway through the introduction of cookbook author, Martha Stewart, as spokeswoman for its Home Fashions Division. Associating this personality with the reformatting of 406 of the chain's Kitchen Korners in 11 markets last month could signal a turnaround in K mart's housewares fashion deficit.

Unlike K mart, vendors said Target is current in fashion, but at times sacrifices basic sales to maintain that image. Out-of-stocks were cited by some vendors as a problem the chain needs to address.

Housewares industry sources said that Target has successfully managed to differentiate itself from the competition by developing a fashion-forward assortment in housewares. But, the chain's single-minded direction has made it less of a powerhouse than it could be, sources said.

"Target needs to be more realistic about where the tonnage business is done," one vendor said. "Target has too many facings of a single product which narrows the selection," another said.

However, Target buyers have created a department that promotes add-on and impulse purchases with colors in everything from dinnerware to plastics. The fashion ingredient draws the shopper into the area and encourages her to think about how otherwise basic housewares merchandise could become fashion accessories to dress up her kitchen.

If vendors believe Target is in error by limiting the amount of housewares commodities it carries, perhaps they do not fully understand the Target customer who can afford to spend a little more to get more than function from her housewares purchase.

While vendors said that Wal-Mart has a few of its own glitches, none of those shortcomings could be found in housewares, where adequate stocking, sharp everyday and promotional pricing, and broad selection are accentuated by dedicated store employees. These successful elements overshadowed the fact that Wal-Mart's merchandise does not have the colorful zip that Target offers. But, like Target, Wal-Mart is geared toward its own shopper base—with fewer dollars to spend on non-essentials.

"Wal-Mart has a concept of people," one vendor said. "Store level people don't just do a job. They take pride in a display and the proper execution of a buyer's plans. Another chain's store people might leave a sold-out display empty, but at Wal-Mart they will make something up to fill the display if they don't have more of the same product to fill it."

Research findings verified shopper's attitudes that Wal-Mart has store level employees who are more helpful and courteous than those of the other two chains. However, a higher percentage of shoppers at Target named housewares/bath accessories as the product category in which they mainly spent their money at the store in the past year.

Target's edge in fashion has evidently gone a long way in meeting the needs of its customers. Interviews with 1,800 heads of households across the country revealed that Target's housewares department has relatively more merchandise that customers want than either K mart or Wal-Mart.

MIRRO
29.96
WEAREVER
19.96

Kitchen wallpapering enhances Wal-Mart's cookware display in Eureka, Mo. Boxed stock shelves above and below give the section the chain's customary 'stocked to the teeth' appearance.

Target Holds Strong Housewares Image

Percent of shoppers who mainly spent their money on housewares at the store during the past year

	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)			
Housewares/Bath Accessories	15.7%	13.9%	22.4%
Small Electrics	1.1	2.1	2.6
In Small Metro Areas (Pop. 50,000 to 1 mil.)			
Housewares/Bath Accessories	18.0	10.9	20.9
Small Electrics	2.6	2.9	4.8
In Non-Metro Areas (Rural)			
Housewares/Bath Accessories	18.2	19.6	26.4
Small Electrics	4.0	2.6	1.7

Source: Leo J. Shapiro & Associates/DSN, December 1987

MARKET BASKET: Housewares

Prices on selected housewares sold at all three chains

Market	K mart	Wal-Mart	Target
Corning Visions, 2½-qt. saucepan with cover, V-2½-N			
Austin, Tex.	$17.97	$15.96	$14.99
Memphis, Tenn.	17.97	15.96	17.49
St. Louis, Mo.	N	15.96	14.99
Wichita, Kan.	17.97	N	14.99
Corning Visions, 6-piece set, V-300-N			
Austin	N	24.96	29.99
Memphis	24.96	24.96	22.99
St. Louis	27.66	24.96	28.99
Wichita	28.96	28.96	34.99
Sunbeam Oskar food processor, white			
Austin	56.93	48.68	49.99
Memphis	59.68	48.68	49.99
St. Louis	57.88	59.68	49.99
Wichita	56.00	59.68	49.99
Oster Galaxie Cycle blender, 869-16			
Austin	31.88	23.94	24.99
Memphis	23.94	25.94	23.99
Wichita	23.79	23.94	23.49
Regina 3-speed Electrikbroom vacuum, No. HB7839			
Austin	49.87	N	47.99[1]
St. Louis	39.99	39.43	39.99
Wichita	N	39.43	46.99
Nordic Ware Micro-Go-Round, No. 62301			
Austin	29.96	17.97	24.99
St. Louis	24.94	N	24.99
Rubbermaid twin sink dish drain, No. 1180			
Austin	5.38[2]	3.97	N
Memphis	N	6.58[3]	5.99[3]
St. Louis	4.83	2.96	2.99
Wichita	3.83	2.96	2.99
Ekco Bakers Secret 5¼-in. by 9¼-in. loaf pan			
Austin	N	1.96	3.49
Memphis	2.87	2.46	2.49
St. Louis	3.29	2.46	2.49
Wichita	1.97	2.46	3.49
Ekco Bakers Secret 12-cup muffin pan			
St. Louis	4.49	3.96	N
Wichita	4.86	3.96	N

[1] No. 7439; [2] No. 6008; [3] No. 6032-25

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN research

Bedding shop

Geese are one of several motifs that unify the home fashion display at this recently-opened Detroit area Target.

KITCHEN KORNER

Consumer brand awareness in housewares keeps price competition stiff at K mart's Kitchen Korner, Sterling Heights, Mich.

(DSN photos)

K mart Promotes CE to Capture High-End Biz

Portable electronics at K mart: CE is among several 'dominant' categories which have been top performing departments this year.

While K mart may be way ahead of most retailers in total sales of consumer electronics, it may not be able to sustain that lead if it misses it's aim on a new important market— upscale customers.

Figures from a number of industry sources pegged K mart's sales in consumer electronics at around $2 billion, double those of the leading CE specialty retailer, Circuit City, almost triple Wal-Mart's CE sales of $800 million, and four times Target's estimated annual CE sales of between $400 million and $500 million.

However, the Troy, Mich., chain has been both criticized and complimented by manufacturers and other industry executives for broadening its product mix to appeal to a more upscale customer. Of the Big Three discounters, K mart has made the strongest commitment to carry more high-end goods, sources said.

In video, for example, K mart is the only one of the Big Three to carry a recently introduced four-head Panasonic VCR with bar code programming that sells for between $400 and $450.

K mart has been applauded for its attempt to change with the market. Most everyone in the industry agreed that due to the current slump in CE business and the recent stock market crash, the only customers that may have the discretionary income to spend on electronics will be those in a higher income bracket.

"K mart is on the ball," said an industry observer, who asked to remain anonymous. "It is increasing its floor space to display the higher-end products and has started a more aggressive advertising and promotion campaign on the higher-end items."

K mart's more serious quest to be a dominant retailer of consumer electronics can be viewed in the chain's Roseville, Mich., store. "In my opinion, it's the best electronics department we've ever had," commented chairman and chief executive officer Joseph Antonini, in a recent interview with *DSN*. "I'm real impressed with it . . . It's more expanded and gives more focus to categories and a little more space . . . a nice approach for that dominance we are trying for in that area."

But, can a discount department store ever be "dominant" when compared to a CE specialty or superstore electronics retailer?

"You probably won't be as dominant but you can be dominant enough not to lose market share," said Antonini. The executive pointed out that this year K mart is experiencing its best results in departments like electronics where this effort at category dominance is most pronounced.

The new department prototype also carries microwave ovens and sports new signage, said Antonini. And, like the CE specialty chains, K mart promises to meet any lower price in a market on an identical item.

Sources said that K mart's aggressiveness has resulted in the chain garnering more profits, a feat that has been elusive for many electronics retailers, who have had a very difficult time this year. J.C. Penney, as an example, has decided to terminate its CE business because it was unhappy with its profits in that category, and a number of CE specialty chains have reported

(Continued on page 154)

Target gets high marks for its neat, clean, well-lighted presentations of CE products. (DSN photos)

MARKET BASKET: Consumer Electronics

Prices on selected CE products sold at all three chains

Market	K mart	Wal-Mart	Target
Prerecorded video, Disney Children's Classic			
Memphis, Tenn.	$14.88	$ 12.83	$ 9.99
St. Louis, Mo.	14.95	9.96	14.99
Wichita, Kan.	27.76	27.76	26.95
Compact disc, 10-in., Madonna "Who's That Girl?"			
Austin, Tex.	17.33	12.96	12.99
Memphis	13.44	14.77	12.99
St. Louis	17.33	14.97	12.99
Wichita	17.33	14.77	12.99
Single LP album, Whitney Houston "Whitney"			
Austin	9.23	8.24	8.99
Memphis	9.87	6.96	6.99
St. Louis	8.77	8.46	8.99
Wichita	9.47	6.96	6.99
Blank videotape, T-120			
Austin	3.77[1]	3.96[1]	4.99[1]
St. Louis	4.97[2]	3.96[1]	5.89[1]
Wichita	3.97[3]	3.96[1]	4.99[4]
TDK blank audiocassette, 2-pack, 60-min.			
Austin	2.47	2.27	2.94
Wichita	1.97	2.27	2.39
Emerson VCR-754			
Austin	N	199.63	199.99
Wichita	N	199.63	239.99
RCA 12-in. black & white TV			
Austin	69.00[5]	62.86[6]	N
St. Louis	69.00[6]	62.87[6]	57.99[6]
Wichita	69.00[6]	62.86[6]	49.99[7]

[1] Sony; [2] Maxell; [3] TDK; [4] Scotch; [5] BWT122W; [6] BCR128; [7] Samsung 12-in. b&w TB1210
Market baskets were conducted in October 1987 in area stores.
N—not carried or not in stock
Source: DSN research

K mart Promotes CE to Capture High-End Biz

COLOR TV
$29 43
$379

Televisions, VCRs, camcorders and antennas on display at Wal-Mart's Eureka, Mo., store: Despite its low price points, the discounter manages to carry many of the newest CE products.

Wal-Mart Garners More CE Shoppers

Percent of shoppers who mainly spent their money on CE at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	3.3%	4.4%	2.9%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	1.6	4.1	2.9
In Non-Metro Areas (Rural)	1.3	1.8	0.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

(Continued from page 153)

reduced profits due to unbridled competitive factors.

Wal-Mart and Target continue to zero in on their basic customer bases, said several vendors. Target sells electronics to low- to middle-income customers while Wal-Mart carries a limited selection of basic low-end product, a move that some suppliers feel is a great strength of the chain.

A number of industry veterans point out that limited product selection actually benefits discount stores because it narrows the choice for consumers, alleviating confusion especially if sales help is not available. K mart and Target carry a wider selection than Wal-Mart. And, Target stocks more cartons on the sales floor, which gives it more of a warehouse look.

Both Wal-Mart and Target have a neat, clean presentations of CE products. Their departments are usually in or near a main aisle in the store. In contrast, K mart's tend to be more isolated. Both use extensive lighting to showcase the merchandise.

Target has developed a new prototype to focus on highlighting its electronics presentation. It has been working on updating fixtures and displays with warmer colors.

In a consumer study conducted by Chicago-based Leo J. Shapiro and Associates for *DSN*, Wal-Mart customers more often said they mainly go to that store for electronics products, than did K mart or Target customers in all three types of markets surveyed: metropolitan areas of 1 million population and over, small metro areas of between 50,000 and 1 million residents, and non-metro/rural areas.

This could be due to Wal-Mart's "homey" ambience. It is the small town store; store personnel are familiar with customers and customers feel loyal toward the chain. K mart and Target stores are more impersonal, mostly located in big shopping malls.

Most observers agree that currently the lowest price points on CE products carried in all three stores can be found in Wal-Mart stores while the highest price points are found at K mart.

Wal-Mart seems to have more current merchandise than Target. In Wichita, Kan., for example, Target carried a QT-242 Sharp portable stereo that was discontinued and either bought as a closeout or had been an inventory leftover for $49.99. At a comparable price of $49.97, Wal-Mart had a much newer model in Sharp's portable audio line, GF-330.

The GF-330 is a product that is targeted for a little older customer base with more income than the QT-242, which was targeted for a younger audience in its design.

PHARMACY
$49

Sources say that K mart is one of the few mass merchandisers not losing market share to the CE superstores. (DSN photos)

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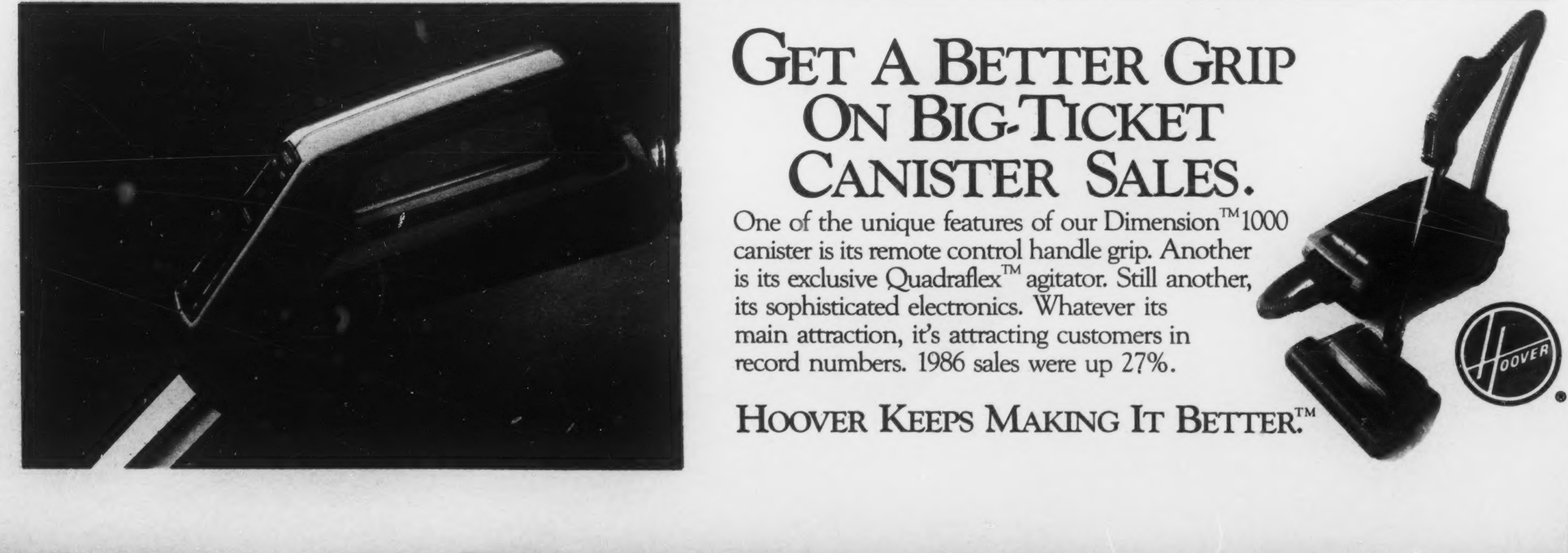
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K mart Leads Top Chains in Photo/Camera

K mart is living up to its reputation in the industry as the dominant discounter in the overall photo and camera business.

K mart's photo/camera sales account for 15 percent of all photo retail business in the country, according to several published reports.

It is the consensus of the industry that K mart's volume in the photo/camera category is at least double that of Wal-Mart and Target.

However, when K mart is compared to Target on a per store basis in film sales, it falls short. Target is able to make more in film sales per store than K mart because of the tremendous amount of advertising space it devotes to film and the larger amount of floor space given the department in its stores.

Film Price Wars

Target is very competitive in film pricing, very close to or lower on many items than either K mart or Wal-Mart.

For example, according to a market basket survey conducted by *DSN* on four different markets in October, Target matched K mart in price on Time-Zero SX-70 film, twin pack, while surprisingly, Wal-Mart, known for its low prices in most categories, was significantly higher at $16.58 in Austin, Texas. In St. Louis, Wal-Mart remained the highest priced at $16.58 on the sku, while K mart had a price of $15.97 and Target remained lowest at $15.39.

Target carries Kodak and a private brand film; K mart sells Kodak, Fuji and its own brand, K mart Focal. Wal-Mart stocks Kodak and a private brand by Scotch. All three discounters are capturing the renewed interest in instant photography by obtaining strong sales in Polaroid film, said industry sources.

According to *DSN's* 1987 Top Brands survey, released earlier this year, Kodak was mentioned by nine out of 10 store managers at K mart, Wal-Mart and Target as being their best performing brand.

Polaroid Second

The second best performing brand at Wal-Mart and K mart was Polaroid. Seven out of 10 Wal-Mart store managers named Polaroid as a top performing brand, while six out of 10 K mart store managers said likewise.

Kodak was mentioned by 9 out of 10 managers at K mart, Wal-Mart and Target as their best brand.

At Target, Canon was mentioned more often, with five out of 10 store managers naming Canon as a top performing brand. A strong 42 percent of Target store managers named Polaroid to be one of their best performing brands.

Discount stores have really become the photo source since the big consumer swing from cartridge film to 35mm film. Discount stores, according to industry observers, have done the best job in capturing this new business.

Target and Wal-Mart customers, in all types of markets, have a tendency to go to one of those discount stores specifically for tapes or film than do customers of K mart.

In Photo, Wal-Mart's The One in Rural Areas

Percent of shoppers who mainly spent their money on photo/camera at the store during the past year

	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)			
Tapes/Film	1.8%	4.1%	3.9%
In Small Metro Areas (Pop. 50,000 to 1 mil.)			
Tapes/Film	1.2	1.7	4.0
In Non-Metro Areas (Rural)			
Tapes/Film	0.0	2.4	0.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

According to research conducted for *DSN* by Leo J. Shapiro Associates, Chicago, a higher percentage of Wal-Mart shoppers in metro areas of 1 million or more population said they mainly spend their money on tapes and film at Wal-Mart than did shoppers at either Target or K mart.

In small metro areas of between 50,000 to 1 million residents, Target recorded the highest percentage of shoppers who said they mainly spent their Target dollars on tapes and film during the past year. In non-metro/rural areas, Wal-Mart was clearly dominant in the tapes/film area.

Discounters Push Harder

Discount stores, in general, seem to be pushing harder to get photo finishing business away from drug stores, which used to be the predominant format in that area.

K mart, Target and Wal-Mart have all recognized that this is the way to achieve repeat visits. Target took the concept one step further and became the trend-setter on self service finishing for customers two years ago.

Two Have Minilabs

Further, K mart and Wal-Mart have installed minilabs in stores, and Wal-Mart has its own lab. Target does not have minilabs or a lab of its own yet.

All three have started selling more 35mm autofocus cameras, reflecting the trend to that type of equipment. K mart and Target have gone aggressively after self-service blister packs of cameras on pegboards with a large selection of price points from $10 to $80.

Wider Selection

K mart has the wider selection of price points on cameras than Wal-Mart and Target, suppliers said. Furthermore, it is also believed that K mart has the most knowledgable salespeople.

In pricing, Wal-Mart seems to have the lowest prices on cameras. Among the three discounters, Wal-Mart was significantly lower in price on a Minolta Maxxum SLR 35mm, number 7000, in Austin, Texas. Wal-Mart was selling this model in October for $340, while Target had it priced at $386.99 and K mart was selling it for $399.

Wal-Mart and Target have their photo departments adjacent to their consumer electronics departments, while K mart has the two departments in different locations.

Most SLR and 35mm cameras are displayed in glass cases in all three chains, usually manned by salespeople. All film is usually contained in outside displays for consumers to pick up except for Polaroid film, which sometimes is behind the counter and has to be requested.

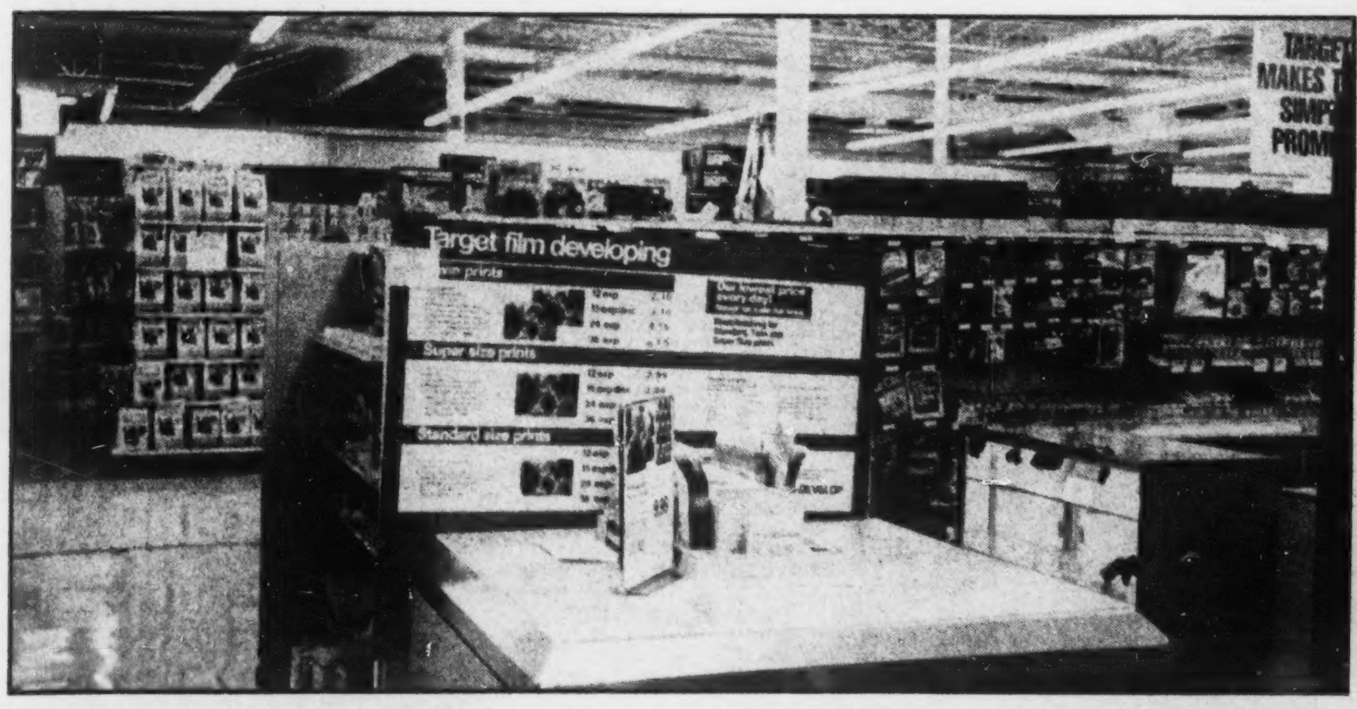
In overall volume, K mart is the dominant discounter in the photo and camera business. Its sales people are considered top notch by sources in the industry.

MARKET BASKET: Photo/Camera

Prices on selected photo/camera products sold at all three chains

Market	K mart	Wal-Mart	Target
Kodak disc film, twin pack, 30-exp.			
Austin, Tex.	$ 3.96	$ 3.83	$ 3.99
Memphis, Tenn.	4.37	4.26	4.29
St. Louis, Mo.	3.99	4.77	4.19
Wichita, Kan.	4.39	4.38	4.39
Canon Sure Shot Supreme, 35mm camera			
Austin	188.00	169.87	169.99
St. Louis	N	169.87	179.99
Time-Zero SX-70 film, twin pack, 20-exp.			
Austin	14.99	16.58	14.99
St. Louis	15.97	16.58	15.39
Kodak, 35mm color film, 24-exp.			
Austin	2.99	2.24	2.69
Memphis	2.17	2.24	N
St. Louis	2.76	2.76	2.59
Wichita	2.39	2.38	2.49
Kodak, 110 color print film, 12-exp.			
Austin	2.26	2.07	N
Memphis	2.38	2.18	2.19
St. Louis	2.38	2.07	1.89
Wichita	1.89	2.07	1.89
Polaroid Spectra System			
St. Louis	139.99	127.67	139.95
Wichita	127.97	127.67	139.99
Polaroid Spectra film, single pack			
Austin	9.96	8.67	N
Memphis	N	8.67	8.48
St. Louis	8.97	8.67	8.29
Wichita	8.62	8.62	N

Market baskets were conducted in October 1987 in area stores.
N—not carried or not in stock
Source: DSN research



While it does not have mini labs like K mart and Wal-Mart, Target does offer film developing. It also sells blister-packed cameras on pegboards nearby.

Wal-Mart usually locates its photo departments near consumer electronics, creating a sort of synergy between the two departments.

(DSN photos)

Wal-Mart Leads in Price, K mart in Selection

PHARMACY
ADVERTISED
PENNZOIL

K mart appears to stock the widest variety of automotive supplies among the Big Three discounters.

As it does in most merchandise categories, Wal-Mart proves itself to be the aggressive price leader in automotive parts and accessories in markets where it bumps heads with K mart and Target.

But K mart appears to have an edge in terms of breadth of product selection. And, a respectable number of non-apparel customers at Target still head primarily for the automotive department when they shop Target stores, even though the upscale chain last year dropped automotive service and replacement parts.

As do almost all discount department stores, the Big Three restrict themselves primarily to commodity, high-volume merchandise, such as motor oils, filters, spark plugs, chemicals and appearance accessories, leaving slower turning hard parts to auto parts specialty chains.

Limited Automotives

Target's automotives offerings became even more limited last year, however, after it scrapped automotive service entirely and dropped merchandise such as shocks and tires. Target now calls the department "auto accessories." The department offers mostly brand names, including Delco batteries, although it carries private labels in two major product categories, oil and air filters.

Keeping up with the pickup and van boom, Target stocks a limited line of accessories such as running boards, bed liners and molded plastic pickup truck tool boxes.

Auto parts chain competitors and manufacturers representatives alike give Target high marks for the way it handles its remaining automotive lines.

"Target merchandises very well," said one representative. "Presentations reflect its upscale, department store origins," he said.

"Target does a better job than K mart in operating cleaner, neater automotive departments," said a senior buyer for a major auto parts chain. "Target has a leg up on K mart because it maintains a pleasant atmosphere. They have the reference tools on hand to look up what you want," the buyer added.

On the flip side, "Target isn't really aggressive in trying new things. It plays follow the leader," the buyer said.

"At K mart, catalog pages often are torn or missing. Its method for presenting products appears to be, 'wherever it fits, it goes,' " the auto chain buyer said.

Target still carries appearance chemicals, like waxes, cleaners and protectants, and the category continues to show a good growth pattern, said an executive for a major auto wax supplier.

In a cut back of auto service, K mart has stopped putting automotive service centers in its new stores and closed service centers in about 75 others over the past 18 months. That still leaves, however, about 1,400 K mart stores that offer installed or carry out prices on tires, mufflers, coil springs and shocks, along with auto services such as brake jobs, tune ups and radiator flush and fills.

In a merchandising innovation, K mart now gives top billing on its private label batteries to the brand name of the supplier. Therefore, its Motorvator private label battery also carries the name of the suppliers, including Delco Remy and Exide.

In contrast to K mart, Wal-Mart is expanding automotive service, increasing the number of Wal-Mart Discount City stores offering such major automotives merchandise as tires to about 225 from around 175 in 1986. In addition, its Sam's Wholesale Clubs have become a major factor in tire installation by offering major brands, such as Michelin, at prices up to two-thirds off those at independent tire shops.

No Clear Lead in Automotives

Percent of shoppers who mainly spent their money on auto supplies at the store during the past year

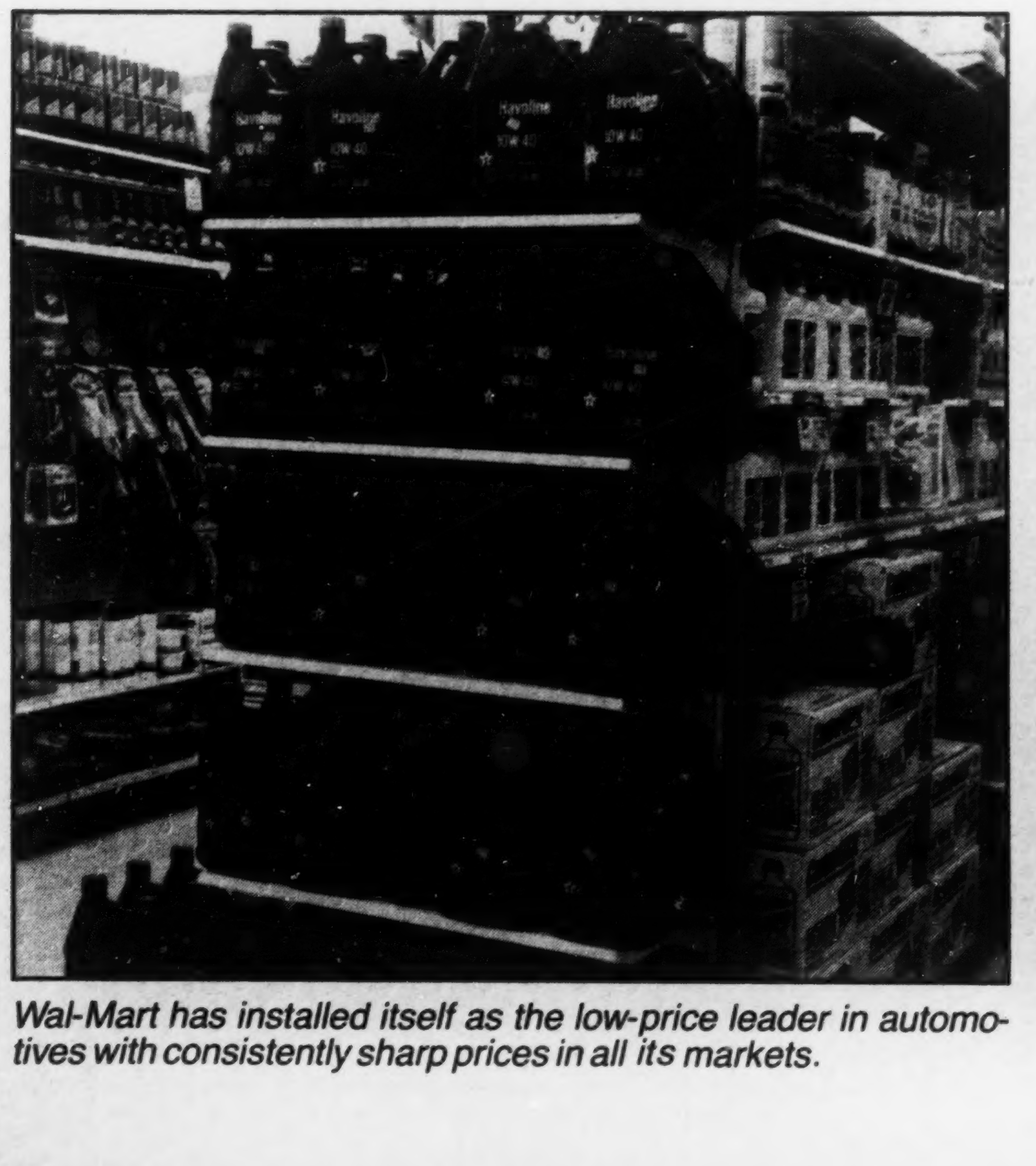
Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	9.8%	3.3%	6.4%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	13.3	15.2	20.0
In Non-Metro Areas (Rural)	7.8	8.0	5.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

To help maintain its status as the aggressive price leader of the Big Three, Wal-Mart has made major progress in eliminating the role of manufacturer representatives in automotives, (as well as hardware and electricals), despite opposition from the reps. In theory, buying direct from the factory can shave extra points on prices, although manufacturers are unlikely to concede the full amount of reps' commissions because they have to assume costs that reps handle.

"Wal-Mart has carved out a viable niche in automotives," said an executive for a major appearance chemicals vendor. "K mart appears to be getting more aggressive," he said,

(Continued on page 163)



Wal-Mart has installed itself as the low-price leader in automotives with consistently sharp prices in all its markets.

Auto Supplies

Target carries appearance chemicals: waxes, cleaners, protectants, fluids and oils. (DSN photos)

Wal-Mart Expands Automotive Service as K mart Cuts Back

While Wal-Mart is expanding automotive service, K mart is cutting back. The twin developments stress even more their respective thrusts: Wal-Mart toward hard goods and K mart toward soft goods.

Target, the consummate soft goods discounter, is out of the auto service picture completely. It closed all 193 of its remaining service centers in February 1986 and converted the space to soft goods.

Before taking the ultimate step, Target had cut back to specialized auto service in tires, batteries and shocks from general service.

Out of 121 new Wal-Marts opened last year, 49 got auto service centers. Most of the larger, urban stores built this year are getting service centers. Overall, 225 out of Wal-Mart's approximately 1,100 stores offer auto service. Moreover, Wal-Mart is going to test quick lube service at its new hypermarkets, starting with the unit set to open after Christmas in Garland, Tex., outside Dallas.

Closing Auto Service

In sharp contrast, K mart opened 36 new stores this year, and declined to install auto service bays in any of them. Moreover, over the past 18 months, K mart has closed an estimated 75 auto service centers to make more room for apparel.

Consequently, the proportion of K marts that offer auto service is steadily declining.

Out of some 2,203 stores, only an estimated 1,400 stores operate auto service bays.

That compares with around 1,900 auto service centers four years ago. That was before K mart closed about 300 marginal or money-losing centers in one fell swoop. Since then, auto service managers have had to convince headquarters that their operations could produce better margins than could soft goods. Many have lost that argument.

Last December, Wayne Sales, divisional merchandise manager for auto accessories and service, spelled out K mart's policy regarding existing service centers: "We will constantly evaluate every service center and make a business decision as to how successful we are."

In a typical closure in the Dolton, Ill., store last December, K mart knocked out a wall and put sporting goods in the space that the service bays once occupied. Then it expanded apparel into the square footage that sporting goods once held.

As another indicator of the de-emphasis of automotive service, K mart last February abolished K mart Enterprises, eliminating a vice presidency and its staff. That was a subsidiary established in 1965 to assume operation of what used to be leased departments in sporting goods and automotives.

In addition, K mart over the past two years eliminated five auto service managers at the regional office level and 20 district automotive managers, a former K mart auto service executive said.

The only part of K mart Enterprises that remains is the merchandising group under direction of dmm Sales, said Maxwell Parsons, who retired as vice president in April 1986.

Parsons said K mart declined to fill his position after he retired and then abolished the Enterprises subsidiary.

"I understand they have closed a number of auto service centers," Parsons said, "but I don't know how many."

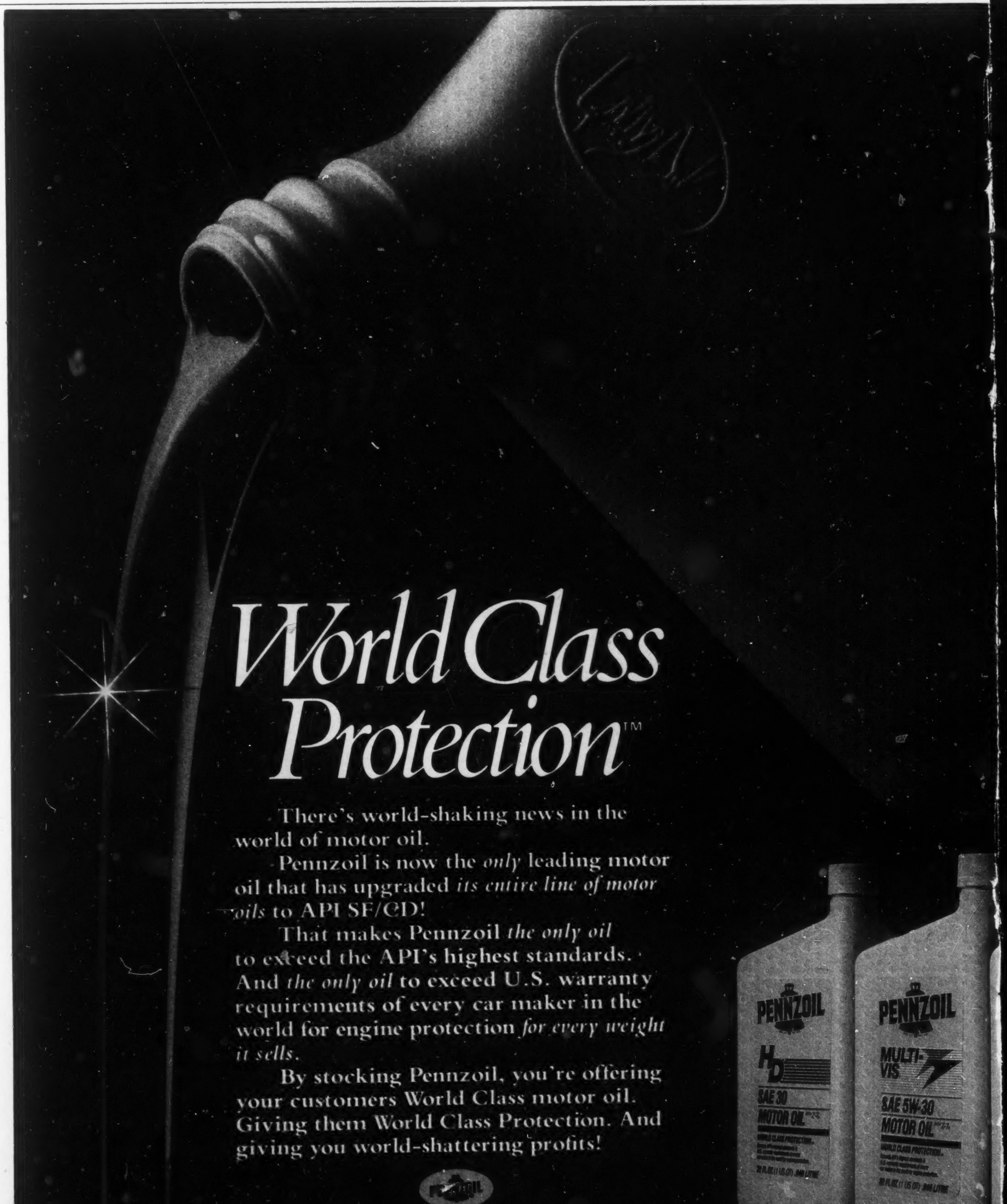
K mart declined to reveal how many automotive centers it has closed.

The closings include at least five in the Chicago area,

(Continued on page 161)

auto service
Quaker State
LUBE-OIL FILTER
$11.97

This K mart auto service center in Memphis, Tenn., may become an anomaly for the chain. The proportion of K mart stores offering auto service has been steadily declining. (DSN photo)



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WAL-MART AUTO CENTER
ALIGNMENT
BRAKES
TIRES
LUBE

Unlike K mart, Wal-Mart has been expanding the number of its discount stores that offer automotive service, especially in larger urban locations. (DSN photo)

Wal-Mart Expands Auto Service as K mart Thrusts Toward Soft Goods

(Continued from page 160)

where Venture closed all 20 of its Chicago-area service centers in August.

A Chicago store manager for a mass merchandiser that is expanding auto service said he has interviewed a number of K mart employees for mechanic and service manager jobs and his headquarters had interviewed a couple of K mart auto service people for executive positions.

"They're cutting back," the store manager said, requesting to remain nameless. "The auto service program [at K mart] is in turmoil," the manager said he was told by the K mart employees he interviewed. "It's getting harder and harder to get the job done. The people aren't there because of payroll cutbacks."

"There is a lot of apprehension because of the thrust towards soft lines," said the former K mart auto service executive. Also requesting anonymity, he attributed the cutbacks to Joseph Antonini. Before taking over as chairman and chief executive officer of K mart Corp., Antonini was influencing the direction of auto service while he was president of K mart Apparel and heir apparent of Bernard Fauber, said the executive.

As another indicator of soft lines ascendancy over auto service, Gus Giotis previously was a soft lines merchandiser before being appointed director of auto service in 1983, the former executive said. "I left when I saw the handwriting on the wall," he said.

He estimated that K mart takes in close to $500 million a year in auto service revenues.

K mart's cutbacks make sense, said Richard A. Vinet, a Langhorne, Pa., consultant to the auto service industry, because of problems with training mechanics, high costs of equipping service bays and slow turns in installed parts.

Capital investment for a six-bay auto service center runs about $250,000, Vinet said. To make a reasonable profit, such a center has to garner $720,000 a year in revenues, and profit margins would range from 5 percent to 10 percent, after labor costs.

Labor: A Major Problem

Labor is the major problem facing the service industry, Vinet said. Because of the growing complexity of modern cars, mechanics need constant, and costly, retraining. A certified class A auto technician expects to make $30,000 to $40,000 a year, Vinet said. "K mart can hire an apparel clerk for minimum wage," he said. Discount chains often hire entry-level auto service workers at $7 an hour, he said.

Emphasizing the scope of the training problem, Vinet said that Sun Oil Company is gearing up to train (or retrain) all 4,000 mechanics for its 2,000 Sunoco stations. "The auto service industry requires total retooling," he said.

Because of the proliferation of auto makes and required parts, turns for installed automotive parts run a low four, the service consultant said.

Moreover, if a discounter's auto service department fails to deliver the same level of cleanliness, courtesy and attentiveness that customers find in the rest of the store, the chain stands a good chance of losing not only their customers' auto service business but also their hardware and apparel purchases, Vinet said.

Nonetheless, money can be made in auto service, said Marty Butler, head of Distributors Institute, Chicago. The average age of cars on the road in 1986 was 7.55 years, compared to 5.55 in 1970, he said.

Goodyear, Firestone and auto parts chains such as Pep Boys are slugging it out for general repair business, Butler said. (Pep Boys operates two auto mechanic training centers, one on the East Coast and one on the West Coast.)

It's a question, however, whether people are going to go to a Wal-Mart or a K mart for major repairs, Butler said.

But most important, "I'd be looking at the availability of mechanics if I were in K mart's shoes." he said. "They can train an apparel clerk easier than a mechanic."

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Wal-Mart Sharpest on Auto Prices; K mart Has Wider Product Selection

(Continued from page 159)

adding that "Apparently, it has felt Wal-Mart's heat."

The Big Two differ in that consistently lower price is more important than variety for Wal-Mart, whereas K mart opts for offering a larger variety and allows prices to float from market to market, he said.

Price is Important

"Price is extremely important to Wal-Mart," he said. Accordingly, Wal-Mart concentrates on two or three volume leaders in waxes, for example, in following its low-price strategy, while K mart might offer six or seven wax items.

"The leader, and K mart is still the leader, can sometimes get away with charging a premium price," he said.

DSN market basket surveys of four markets—in which the two regional chains, Wal-Mart, geared toward Small Town America, and Target, concentrating on metropolitan areas, compete with K mart, the national chain—shows that Wal-Mart has installed itself as the low-price leader in automotives.

In contrast, K mart and Target appear to have conceded the low-price ground to Wal-Mart and compete on price with one another.

Consistent Price Policy

Another trend to emerge from the research is that Wal-Mart follows a consistent price policy among different markets, while K mart store managers have the flexibility to vary their prices widely, in accordance with local market conditions.

For example, Wal-Mart charges the same $2.57 for a Fram PH8A oil filter in Austin, Tex., Memphis, Tenn., St. Louis and Wichita, Kan.

In sharp contrast, K mart charges $3.19 for the same filter in Austin, $2.99 in St. Louis, $2.79 in Memphis, and $2.57 in Wichita.

Target charges $2.79 in three of the four and matches K mart in Austin at $3.19.

Another example: for the 14-ounce size Turtle Super Hard Shell Paste Wax, Wal-Mart charges $2.97 in all four markets surveyed.

K mart matches the $2.97 price in Austin and Wichita, but charges $3.39 in St. Louis and $3.97 in Memphis.

Turtle Wax at Target ranges from $2.99 in Wichita and Memphis, to $3.39 in St. Louis and $3.99 in Austin.

K mart makes no secret of its varying price policy. Its circulars note, "Regular Prices May Vary in Some Stores Due to Local Competition."

Neither K mart nor Target offers sharper overall prices in automotives, said the senior buyer for the major automotive parts chain.

Despite its reduced presence in automotives, Target comes off well in consumer surveys conducted for *DSN* by Leo J. Shapiro & Associates, the Chicago-based research firm.

> ***Wal-Mart follows a consistent price policy among different markets, while K mart managers can vary their prices widely in accordance with local market conditions.***

In a survey of consumers who shopped the Big Three discounters primarily for non-apparel goods over the past 12 months, 11.6 percent of Target customers said they mainly shopped its automotive department. That compares with 12.4 percent of K mart non-clothing shoppers and 9.8 percent of Wal-Mart's.

In comparing shopping patterns in various size markets, the research shows that Target comes out on top in small metropolitan markets of 50,000 to 1 million.

Asked what they mainly spent money on at the store in the past year, 20 percent of Target shoppers in small metropolitan markets said automotives. That figure compares with 15.2 percent at Wal-Mart and 13.3 percent at K mart. Moreover, that suggests that shoppers in small metropolitan markets of all the Big Three discounters rely more heavily on the discount stores for automotive supplies than do shoppers in either large metropolitan markets of more than 1 million in population or non-metropolitan, rural markets.

In large metro markets, 6.4 percent of Target shoppers said they mainly spent money on auto supplies, compared to 9.8 percent of K mart shoppers and 3.3 percent of Wal-Mart shoppers.

In non-metro markets—Wal-Mart's stronghold—8 percent of shoppers said they spent money mainly on automotives. K mart followed closely at 7.8 percent, while Target trailed at 5 percent.

In terms of customer satisfaction, automotives shoppers rated Target higher when they had a chance to compare it with K mart and Wal-Mart than when Target had the field to itself.

In markets without competition from the other two discounters, Target shoppers gave the store a rating of 6.21 on a scale of 1 to 9, with 9 representing "outstanding."

When Target faced K mart in the same market, its shoppers boosted their opinion of Target to 6.65. When Target squared off against Wal-Mart only, its shoppers rated it 6.70 on the customer satisfaction scale.

Faced with competition from both K mart and Wal-Mart, Target's overall customer satisfaction score came in at 6.54.

On the contrary, K mart's customer satisfaction rating fell when its shoppers had a chance to see it in action against either one or both of the other major discounters.

Where it had the market to itself, K mart's automotive department got a satisfaction rating from its shoppers of 6.79. That fell to 6.63 when it competed in a market with Wal-Mart only; 6.44 when it fought with Target only; and 5.98 when it tangled with both Wal-Mart and Target.

Accordingly, Wal-Mart shoppers increased their customer satisfaction score to 7.12 when they could compare it with a K mart only, up from 6.98 when Wal-Mart had the market to itself.

But when it competed with a Target only, Wal-Mart shoppers reduced their customer satisfaction rating to 6.37. When Wal-Mart faced off against both of the other two, its composite customer satisfaction rating was 5.84, the survey showed.

Results for the automotive department prove the exception for Wal-Mart. Overall, Wal-Mart shoppers have a higher opinion of the merchandise, in comparison with either Target or K mart, express more confidence at finding what they want and regard store employees as friendlier and more helpful.

MARKET BASKET: Automotives

Prices on selected automotives products sold at all three chains

Market	K mart	Wal-Mart	Target
Fram oil filter, PH8A			
Austin, Tex.	$3.19	$2.57	$3.19
Memphis, Tenn.	2.79	2.57	2.79
St. Louis, Mo.	2.99	2.57	2.79
Wichita, Kan.	2.57	2.57	2.79
Armor All, 16-oz.			
Austin	4.49	4.47	4.49
Memphis	4.47	4.47	4.49
St. Louis	4.99	4.47	4.99
Wichita	4.49	4.47	4.49
Turtle Super Hard Shell paste, 14-oz.			
Austin	2.97	2.97	3.99
Memphis	3.97	2.97	2.99
St. Louis	3.39	2.97	3.39
Wichita	2.97	2.97	2.99
Borden Rain Dance paste, 14-oz.			
Austin	5.69	5.64	5.64
Memphis	6.97	5.64	5.49
St. Louis	5.49	5.49	5.69
Wichita	5.64	5.64	5.69
Gumout Jet Spray, 13-oz.			
Austin	1.97	1.64	1.64
St. Louis	1.69	N	1.64
Wichita	1.64	1.64	1.69
AC-Delco spark plugs, R45TS-8B			
Austin	9.92	9.84	9.99
Memphis	9.52	9.84	9.99
Wichita	9.28[1]	9.28[1]	9.99[1]
Quaker State Deluxe motor oil 10W40, 1-qt.			
Austin	0.99	0.98	1.14
Memphis	0.98	0.98	0.99
St. Louis	0.99	0.98	0.99
Wichita	0.97	N	0.99
Pennzoil Multi-Vis motor oil 10W30, 1-qt.			
Austin	0.99	0.98	1.02
Memphis	0.98	0.98	0.99
St. Louis	0.94	0.93	N
Wichita	0.97	0.97	0.99
Champion spark plugs, RN11YC4			
Austin	4.96	4.92	4.99
St. Louis	4.48	4.92	N
Wichita	4.64	4.64	4.99
STP oil treatment, 15-oz.			
Austin	1.39	1.38	1.39
Memphis	1.77	1.07	1.38
St. Louis	1.36	1.38	1.39
Wichita	1.39	1.38	1.39
WD-40 aerosol, 12-oz.			
Austin	1.87	1.64	N
Memphis	1.88	1.64	1.64
St. Louis	1.54	1.64	1.89
Wichita	1.68	N	1.79
Ford Motorcraft oil filter, FL400A			
Austin	2.99	2.83	2.99
Memphis	3.39	2.93	2.99
St. Louis	2.99	2.93	2.99
Wichita	2.77	2.78	2.79
Texaco Havoline motor oil, 10W40, 1-qt.			
Austin	0.99	0.78	0.78
Memphis	0.98	0.78	0.68
St. Louis	0.99	0.78	0.78
Wichita	0.77	0.78	0.78

[1] *No. R448-8B*

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN *research*

K mart Tests Plastic Pallets for Bulk Aisle Auto Displays

In a merchandising development, K mart has tested plastic pallets for bulk aisle displays, such as oils and antifreeze, instead of wooden flats and is taking a close look at using them chainwide.

Ken Reed, sales and marketing director for Menasha Corp., the Watertown, Wis.-based supplier of the K mart test pallets, said that goods stacked on plastic pallets can be wheeled straight from the loading dock to the sales floor and still present a finished, attractive display, compared to wooden pallets.

The molded polyethylene pallets can be color coded to match store colors, such as orange for Zayre, said Don Karo, marketing director for another vendor, Armin Thermodynamics, Broken Arrow, Okla.

At its new store outside Harrisburg, Pa., Zayre is using Armin plastic pallets to display motor oil and antifreeze in the racetrack aisle along automotive gondolas.

Even though plastic pallets cost $25 to $35, against $6 to $10 for wood, they last indefinitely. The plastic pallets also represent a capital investment, rather than a consumable cost, said Reed, from Menasha.

Reed's firm has been unable to get Wal-Mart interested, but other discount chains using plastic pallets include Bradlees, Caldor, Clover, Fisher's Big Wheel, Jamesway, Rose's Stores, Venture, and Zayre.

"Target doesn't like to clutter up its center aisles with displays," said spokesman George Hite. But it makes an exception for cases of motor oils and antifreeze, which it displays on flats. Hite declined to comment on whether Target is considering switching to plastic pallets from wood flats for these bulk displays.

Aggressive Toy Promotions Push Target Ahead

MICKEY MOUSE
MICKEY MOUSE
MICKEY MOUSE

This new Piqua, Ohio, K mart sports a stronger statement in toys than is typically found in many of the chain's older stores.

Target's ability to pull in customers from all types of markets through its aggressive toy promotions gives it an edge over K mart and Wal-Mart in this category, said industry sources.

Target is called the "promotional horse" in the toy industry. Its aggressive promotional efforts in toys are noted quite often as one of the chain's major strengths.

Target differs from the other two discount giants in the way it buys and stocks toy departments to meet its customers' needs.

Core of Basics

Wal-Mart and K mart try to be consistent by stocking a core of good solid basic items with price points, theme and variety to appeal to the day-in, day-out customer. Then in the fourth quarter, both add a limited selection of good volume toys such as television-promoted toys and licensed products to their basic assortment.

Target, on the other hand, goes after the upscale customer by changing its toy assortment dramatically in spring and in fall with two totally different planograms for those time periods. It expands a great deal in the fall with higher price point sku's and develops a strong endcap program for the Christmas season. It offers seasonally a wider variety of sku's to the consumer than K mart and Wal-Mart.

While Target may not actually always have the lowest prices on all toys sold when compared to Wal-Mart and K mart, it has the uncanny skill to convince customers through its advertising that without a doubt it has the dirt bottom prices.

And, promotion is the nature of the toy business, especially with the highly-advertised toys that all three chains carry. Other more basic toys leave room for more margin for retailers.

Target pushes promotional toys more than the other two discounters. During this Christmas season, it has endcaps filled with such promotional toys as the Fisher-Price Fun with Food series, Hasbro's Pogo Bal and Coleco's talking Alf doll. Endcaps at K mart and Wal-Mart include more basic toys such as the popular board game Pictionary and Lego building sets.

DSN research found Target to have the lowest price on selected toys in selected markets about half of the time. Other times, the chain was beat by either one or both of the other two discount giants.

For example, in a recent price comparison study between the three chains, Target had the lowest price on Worlds of Wonder Lazer Tag game set in both Memphis, Tenn., and Wichita, Kan., and was only slightly higher than Wal-Mart in the Austin, Tex., market.

In Wichita, Target was lowest in price on other promotional toys such as Ideal's talking Big Bird ($54.99 at Target, $59.76 at Wal-Mart and $69.94 at K mart) and on a basic toy, Fisher-Price Little People/Little Mart ($11.99 at Target, $13.94 at Wal-Mart, $13.96 at K mart).

However, in other instances, the chain had the highest price on both promotional and basic products. Target had the highest price in four markets on the Hasbro's Pogo Bal and the highest price in two markets on the Fisher-Price Farm Set.

Still, Target customers buy more toys in than customers of the other two chains.

According to consumer research conducted for *DSN* by Leo J. Shapiro & Associates, Chicago, a higher percentage of Target customers said they went to that store mainly to buy toys, than did customers of K mart or Wal-Mart.

And surprisingly, Target led by a wide margin in non-metro rural markets, where Wal-Mart is usually more dominant.

Since few Target stores are located in such areas, this research finding probably indicates that many non-metro area consumers are driving to the city to buy toys at Target, rather than going to the closer Wal-Mart.

However, while Target customers may say they spent more money on toys than many other categories in the store, Wal-Mart's toy department received a higher customer approval rating.

The research further showed that Wal-Mart's toy department is rated stronger when it is alone in a market than when it shares a market with a K mart or Target store.

On the other hand, Target customers gave the chain's toy department higher marks when they live in markets that also contain K mart or Wal-Mart stores than when Target is not competing against one of the other big discounters.

K mart's toy department was rated similarly regardless of the degree of competition in the market.

All three chains seemed

(Continued on page 167)

Target's Toy Push Attracts Shoppers

Percent of shoppers who mainly spent their money on toys at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	3.8%	3.4%	4.7%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	5.4	6.7	10.5
In Non-Metro Areas (Rural)	3.4	4.1	11.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

THE NEW NEWLYWED GAME
parker brothers slide pursuit game
SORRY!
Clue
MONOPOLY
SORRY!
Clue
MONOPOLY
Yahtzee

While Target is clearly the leader in merchandising highly promotional toys, the upscale discounter also does a strong job with basic items like board games, shown here in Bridgeton, Mo. (DSN photos)

Aggressive Toy Promotions Push Target Ahead

(Continued from page 165)

equally stocked on more basic toys such as board games and preschool items, which could be a result of the popularity of basics toys outweighing promotional toys this year.

Target has the largest toy department in terms of floor space, followed by Wal-Mart and then K mart, which seems to have the smallest toy department of the three chains.

In bicycles, Wal-Mart upgraded its display two years ago to a display rack that carries up to 30 bicycles per store. Target, in contrast, typically carries 40 to 50 bicycles on floor racks as well as hanging from the ceiling.

All three chains seem about equal in price points and selection on the lower end of bicycles, starting at $49 to $59. Target and K mart have higher price points of up to $200 while the highest priced bicycle at Wal-Mart is just a little over $100.

While Wal-Mart and K mart generate more sales in bicycles due to store size, Target's aggressive promotional efforts enable the chain to sell more bikes on ad than on ad at K mart or at Wal-Mart with everyday low pricing.

Wal-Mart is the store to shop for toys when located in a market with little competition. But, the small town chain's edge vanishes when up against either of the other two major discounters. (DSN photo)

MARKET BASKET: Toys

Prices on selected toys sold at all three chains

Market	K mart	Wal-Mart	Target
Sorry board game			
Austin, Tex.	N	$ 10.44	$ 7.99
Memphis, Tenn.	$ 8.53	8.96	9.99
St. Louis, Mo.	9.94	10.48	10.49
Wichita, Kan.	9.94	7.98	10.49
Scrabble board game			
Austin	7.97	8.73	7.99
Memphis	7.88	8.63	7.69
St. Louis	8.67	8.53	6.99
Wichita	7.86	8.63	7.99
Monopoly board game			
Austin	N	8.53	7.49
Memphis	8.96	8.53	8.79
St. Louis	N	8.63	6.99
Wichita	6.88	8.53	6.89
Nintendo video game system			
Memphis	139.00	138.74	139.99
Wichita	139.00	138.74	139.99
Hasbro Pogo Bal			
Austin	N	12.97	14.99
Memphis	14.97	12.97	14.99
St. Louis	N	12.97	14.99
Wichita	N	12.97	12.99
G.I. Joe Persuader tank set			
Austin	9.77	8.93	9.99
Wichita	9.97	8.93	9.99
Fisher-Price farm set			
Memphis	19.96	14.94	21.96
St. Louis	19.97	18.94	21.99
Worlds of Wonder Lazer Tag game set			
Austin	47.99	39.78	39.97
Memphis	47.77	37.77	36.36
Wichita	43.77	43.78	39.97
Yahtzee dice game			
Austin	3.97	4.44	4.99
Memphis	3.93	3.93	4.99
St. Louis	5.47	4.44	4.99
Wichita	4.96	4.44	4.99
Candyland board game			
Memphis	4.88	6.58	5.84
St. Louis	6.69	6.58	9.99
Wichita	5.19	4.98	4.99
Alf doll (non-talking)			
Austin	29.94	24.97	24.99
Wichita	22.97	24.92	24.99
Teddy Ruxpin talking toy			
Austin	N	49.72	46.99
St. Louis	49.94	46.94	N
Wichita	N	49.72	49.99
Ideal Big Bird talking doll			
Austin	69.94	59.76	N
St. Louis	69.94	N	54.99
Wichita	69.94	59.76	54.99
Coleco Cabbage Patch Kid			
St. Louis	N	18.96	18.79
Wichita	24.97	18.96	18.99

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN research

ROSES

ROSES STORES
HENDERSON, N.C. 27536

To: Our Manufacturers and Suppliers

Statement of Policy Concerning Gifts

The holiday season is a happy time when custom suggests we share gifts and remembrances with friends and associates. The joy and good will of the holiday spirit brings us all a little closer together, and for that we are thankful.

However, any Roses associate who accepts a gift or gratuity from a supplier or vendor during any season violates Roses policies and procedures. Please save us both embarrassment by not sending any Roses associate gifts this holiday season; Regardless of the intent the gift cannot be accepted and will have to be returned.

If you feel the spirit of the season compells you to do something, we suggest that you make a charitable donation to your favorite charity in the name of your friend.

Thank you for your understanding and compliance.

Best wishes for a happy holiday season and a prosperous New Year.

President

Wal-Mart Challenges for K mart's L&G Lead

Despite its record for innovation, such as pioneering full-line lawn and garden centers, K mart has fallen behind Johnny-come-lately Wal-Mart in terms of merchandising.

At least that appears to be the consensus among consultants, vendors and garden center competitors.

Some even give Target, which withdrew from the garden center fray in the 1970's, better marks than K mart for merchandising its remaining lawn and garden lines.

What makes it difficult to achieve uniform results around the country is the regionalized nature of garden center operations. Of K mart's more than 2,200 stores, about 2,000 operate garden centers, year-round in the Sunbelt and seasonally elsewhere.

Buying is split regionally in attempts to meet regional needs. Regional managers—and even store managers—get a degree of autonomy that is unheard of in other store departments.

Difficulties in Geography

At an industry conference in May, Joe Hatfield, senior vice president, general merchandise manager for Wal-Mart, indicated the difficulties that geography presents for garden center operators. "We're in Minnesota to Florida and have to become very specialized in what we carry for each market."

Store results for lawn and garden vary radically, compared to other departments, said a consultant to the garden industry, who asked to remain nameless. "I've seen some very good K marts and Wal-Marts, and I've seen some rotten ones."

The stores that do the best are ones that have managers who are committed to the department or managers who take a personal interest in gardening, he said.

Among discounters, K mart pioneered in establishing full-line L&G departments and such innovations as developing a private label program for L&G, promoting UPC bar coded tags for green goods, testing trained horticulturists as department managers and experimenting with shipping live plants in pallet-sized cartons to reduce damage and shipping costs.

Target was the second discounter to start full-line L&G departments but scrapped them in the 70's in favor of its push for soft lines. In most of its 318 stores, Target devotes only limited space to a narrow line of hand and power tools, chemicals, fertilizers, potting soils, pots, patio furniture and gas grills. With the exception of 80 stores in California and Arizona, no Target stores carry woody green goods, (trees and shrubs), but some do stock bedding plants, such as in Milwaukee, and indoor house plants, such as in Dallas.

> ***Among discounters, K mart pioneered in establishing full-line L&G departments.***

In a Target stronghold, California—where discounters simply have to get into gardening—it does very well with full-line L&G departments, said a California store manager. When Target took over about 50 Gemco stores, it increased L&G space by about 30 percent, he said.

At the new Target store in Sacramento, an outdoor garden area, about 30 feet wide, roofed and fenced in, runs the depth of the building. Its indoor L&G section, close to the front entrance, includes a display of healthy-looking house plants. A Los Angeles Target during the week of Nov. 9 was holding a tree and shrub clearance sale to make room for live Christmas trees.

Dr. Chuck Greenidge, owner of Greenidge & Associates, an Evergreen, Colo.-based consulting firm to the gardening industry, said "Talk is that it is planning to expand. Growers are looking for Target growth."

In terms of L&G space and dollar volume, Wal-Mart still is the one doing the catching up to K mart.

In its annual survey of green goods volume, the trade publication, *Nursery Business Retailer*, estimated that K mart took in $700 million in revenues (including fertilizers and chemicals, but excluding power and hand tools) in 1986, when it operated 2,180 stores.

For the survey, Wal-Mart reported 1986 L&G volume of $295.5 million from 980 stores, said *Nursery Business* publisher Dick Morey. Because of its limited involvement with green goods, Target wasn't included in the survey, Morey said, but he added that Target is "getting big in California."

Discounters have thrown down a challenge to independent garden centers, said Ian Baldwin, owner of Nursery Business consultants, Elk Grove, Calif. "They sell to people who don't go to garden centers. They have tapped only a small part of a huge potential market," Baldwin said.

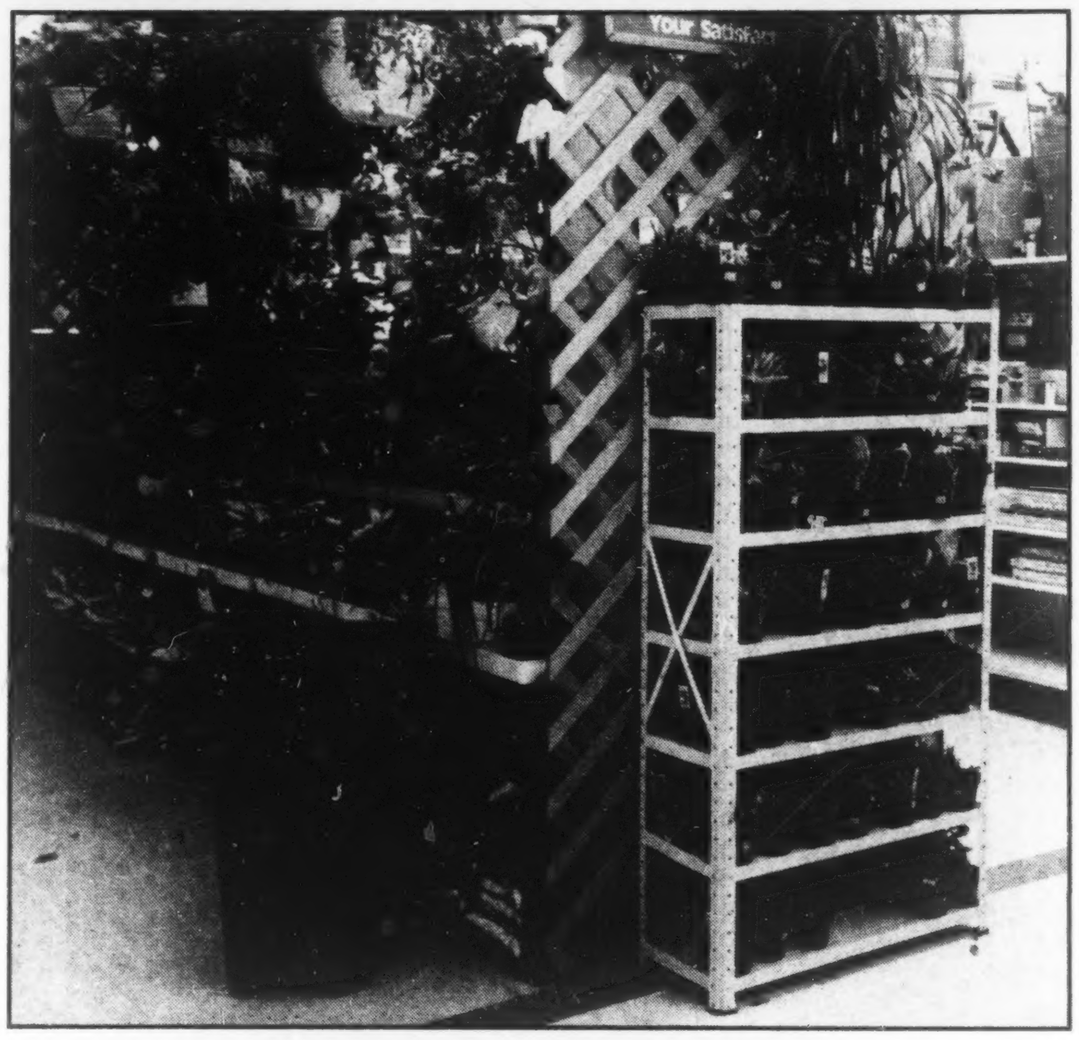
In its 1986-87 National Gardening Survey, the National Gardening Association determined that 22 million, 32 percent, of 69 million gardening households shopped at a mass merchandiser or discount store last year, each spending an average of $261.

A Leo J. Shapiro and Associates consumer survey conducted for *DSN* this fall reflects the differing L&G emphasis of the Big Three.

Of those who shopped at a Target over the past year, 5.1 percent said they went there mainly to buy garden supplies. In sharp contrast, 10.6 percent of K mart shoppers said they mainly spent their money there on L&G supplies. Of Wal-Mart customers, the Shapiro survey found that 8.6 percent mainly shopped there for garden supplies.

In terms of customer satisfaction with the L&G department, K mart also ranked first, with a rating of 6.86 on a scale of 1 to 9, with nine equalling "outstanding." Wal-Mart's score on L&G customer satisfaction was 6.45, while Target trailed with a rating of 6.24.

Initially, K mart was the dominant factor in L&G, said Greenidge. Its private label K-Gro products are second in volume only to Ortho products in the country, he said. K mart devotes space both indoors and outdoors to L&G, Greenidge said.



Wal-Mart is an 'excellent merchandiser' of container plants, which are usually good-looking and well-cared for.

K mart Attacks Leadership In Lawn & Garden Area

Percent of shoppers who mainly spent their money on garden supplies at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	9.1%	9.1%	4.7%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	11.5	4.8	6.1
In Non-Metro Areas (Rural)	11.3	11.2	4.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

In comparison, Wal-Mart stores have no permanent outdoor space dedicated to garden centers, Greenidge said. Instead, it uses "free space" in the parking lots of more than 500 stores to set up plastic-covered greenhouses in front of stores in early spring. Sun-shading burlap goes up as the sun gets hotter.

The innovation creates "a professional nursery image," Greenidge said. Greenhouses not only extend the season but also lend a degree of credibility, he said, adding "It makes it look to customers as if Wal-Mart grows its own stock."

On the contrary, Wal-Mart grows none and buys nursery stock from the same regional growers that supply K mart and Target, Greenidge said. All Wal-Marts once had the greenhouses, but the chain had to pull back in high-wind areas. Neither Target nor K mart uses greenhouses.

For chemicals, fertilizers and bagged goods, such as peat moss, Wal-Mart emphasizes brand names over private label goods, the consultant said.

In terms of sales per square foot and gross profits, L&G runs between third and fifth for Wal-Mart of all depart-

(Continued on page 170)

While not emphasized by the chain as much elsewhere, lawn & garden departments were increased by about 30 percent in floor space when Target reopened former Gemco stores in California.

K mart is the acknowledged pioneer of full-line lawn & garden centers among discount store chains.

(DSN photos)

K mart Pioneers in Establishing Full-Line L&G Departments

(Continued from page 169)

ments, Greenidge said. "I assume K mart gets similar results because of the emphasis it puts on the department."

L&G can be an extremely profitable seasonal department because most goods can be merchandised outside in free space and turnover is high, he said, adding that discounters are moving up in plant size and price points.

Depending on the species, woody plants in one-gallon pots discount for $2.95 to $7.95, Greenidge said. By moving up to two-gallon sizes—still a carry-home size—discounters can bump their price points up to $7.99 to $19.95.

To improve store results, Wal-Mart has asked a major supplier to put together a training program to improve department managers' knowledge of plants and plant care, said a gardening consultant. It is still in the development stage but will include training manuals, videotapes and on-the-job training sessions, he said. "The program demonstrates Wal-Mart's commitment to garden centers."

In a "real step forward," K mart has hired trained horticulturists to manage the garden centers in about 10 stores, Greenidge said. Judging from the complaints of competitors, the test is a success. Instead of offering 100 percent self-service, those stores can offer advice and gardening expertise, Greenidge said.

K mart also is leading the way in getting growers to tag their plants with scannable, bar coded tags, with Wal-Mart following.

K mart also is leading the way with tests of shipping live plants boxed on shrink-wrapped pallets, said one of its major suppliers. Such boxing reduces plant damage, said the supplier, who asked to remain nameless.

In addition, the boxing also reduces handling costs and labor, the grower said. "Instead of unloading gallon-size plants by hand, two at a time, the driver can unload his truck with a forklift."

To promote its garden centers, K mart retains Jerry Baker, a Troy, Mich.-based author of gardening books. This summer, Baker was host of a call-in gardening TV show broadcast in the Tampa Bay area, but the show folded after about six weeks, said Morey, of *Nursery Business*.

In Dallas, a garden center owner who competes with both K mart and Target said K mart is a factor in the market because of low pricing. But in a common comment, he down-graded K mart for the poor quality of its plant care. "They're working on it nationally," he added. Varietal selection also is weak, he said. In Dallas, K mart operates its garden center on a seasonal basis and is pretty much out of it by June, he said.

Showing regional variations, a K mart circular for Southeastern stores was advertising green goods, such as privet hedge and junipers for its Labor Day sale.

K mart is leading the way in getting growers to tag plants with bar coded tags.

An owner of a 59-store garden center chain based in Iowa also criticized K mart for poor plant care. The owner said that at several K mart stores this spring he saw frost-bitten and wind-burned nursery stock. "They were terrible plants," he said. "They should have been dumped."

The owner said Wal-Mart, in comparison, is an "excellent merchandiser." Container plants are good-looking and well-cared for, he said.

A supplier of gardening tools also gave Wal-Mart the merchandising edge. "Wal-Mart promotes the popular, traffic items for those shopping price." But those customers also "step up a lot," he added, and buy associated items that Wal-Mart carries.

In comparison, K mart carries a more limited selection and is more shallow in its merchandising. "Customers often buy the loss leaders and leave," the vendor said.

Wal-Mart also scores better on point of purchase merchandising than K mart with a major power equipment supplier of three chains.

Wal-Mart does a better job of putting products on display, displaying them attractively, and keeping backup product at hand where customers can reach it, he said.

"Every K mart is a new experience," he said, because stores lack continuity. K mart has a worse out-of-stock problem than either Wal-Mart or Target, he said.

Even though Target might carry only one sku of an item compared to, say, three at K mart, Target does a better job of merchandising, he said.

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ORTHO-KLOR Indoor & Outdoor Insect Killer
Rose Food
Vegetable Food
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WEED-B-GON Weed Killer
KLEENUP Grass & Weed Killer
SEVIN Garden Dust
Liquid SEVIN
READY TO USE

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Presenting 1988's most spectacular merchandising event—one with *dazzling prizes for customers and dealers* (including round-trips for 2 to Australia on Qantas Airlines!). It's ORTHO's "Weed 'em and Reap" Sweepstakes—timed and designed to give a big boost to ORTHO's complete line of weed control products. There'll be hundreds of other valuable prizes like Homelite® "Convertible" Mowers, Weber® One-Touch® Kettle Grills, and ORTHO Books. But only one place for customers to get entry blanks—at the special ORTHO "Weed 'em and Reap" Sweepstakes display that you can put in your store. Two special kits will be available to support major displays of ORTHO Weed Control Products. And the *flexible rebate program* lets you promote the right product for your market at exactly the right time.

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K mart Takes Aggressive Lead in Hardware

HOME CENTER
spred satin
ADVERTISED

K mart is well ahead of most discount chains in developing a strong presence in the hardware and home improvement categories.

When it comes to making a purchase at K mart, Wal-Mart and Target, not many shoppers put hardware at the top of their list.

In fact, when shoppers were asked what they mainly spent their money on when they shop at these three retailers, hardware ranked rather low compared to other product categories, especially if customers bought apparel on the same trip, according to a survey conducted for *DSN* by Leo J. Shapiro and Associates, Chicago.

Out of 15 merchandise categories, only K mart's hardware department finished in the top half, the study found.

With gross margins in hardware of about 40 percent, these retailers, like other discounters, are losing out on some substantial sales, sacrificed to the higher-margin yield of soft lines.

For example, market research conducted by security products manufacturer, Schlage, San Francisco, found that discount stores have the same high traffic level of home centers, yet reap only 10 percent of the available hardware sales, vs. 40 percent at home centers and 30 percent at hardware stores.

Untapped Potential

It is an "untapped potential," observed Greg Markes, consumer electronics products manager for Schlage, but one he anticipates will not go unanswered for long.

A number of hardware manufacturers contacted by *DSN*, observed that all three discounters are getting much more aggressive in this area than in previous years, especially K mart.

And, K mart shoppers have noticed the change, ranking its hardware department sixth of 15 merchandise categories, behind apparel, housewares, health & beauty aids, garden supplies and automotives, the Shapiro study found. If shoppers went to K mart to buy apparel, however, only 3.4 percent bought hardware. But if they did not stop by specifically for apparel, hardware was purchased 7.6 percent of the time.

Hardware ranked eighth among Target shoppers as the product category in which they mainly spent their money during the past year, behind apparel, housewares, H&BA, auto supplies, stationery, toys and garden supplies. Six percent said they bought hardware if they didn't go to the store mainly for apparel, but bought hardware items only 1.7 percent of the time if they did go to Target for apparel.

Wal-Mart shoppers ranked hardware 10th, ahead of home soft goods like towels, linens and draperies, crafts, infant supplies, electronics and shoes. Only 4.6 percent of Wal-Mart shoppers bought hardware when in the store to make purchases other than apparel. If they went to Wal-Mart just to buy apparel, only 2.7 percent bought hardware.

K mart has been leading the other two chains in developing a stronger hardware presence through the development of its home care centers.

This department, developed four years ago with the assistance of K mart's Builders Square home improvement division, merged hardware, paint, electricals, plumbing and assorted hard lines products—including building materials—under one banner to help create a "destination department," explained Roy Jones, buyer in charge of home care center projects at K mart.

The department runs its own advertising circulars twice a month, on Sunday or Wednesday, plus ROP ads on alternate weeks from the circulars.

K mart is doing this not only to attract customers already in the stores, but also to draw new crowds. K mart has about 350 home care centers, 42 of which are "expanded" home care centers, the thrust of the company's expansion program in this category.

The expanded home care center features a wide assortment of home improvement products, about 1,200 stock keeping units, merchandised on 8-foot warehouse racks in 15,000 square feet of floor space. The department features some building materials, including dimensional lumber, an expanded line of kitchen cabinets and bathroom vanities, in addition to hardware, power tools, paint, electrical and plumbing products.

Stores converted to this program can expect to chart sales increases of between 25 percent and 30 percent, Jones said.

In 1988, K mart will add about 50 more of these departments, and Jones visualizes a time when home care centers are installed in about half the K mart stores. They won't ever be in all K mart stores because not every neighborhood is suitable for them, he said, noting that not everyone is a do-it-yourselfer.

In addition to the expanded home care centers, K mart has two other versions, the limited home care center which has no lumber, and the regular home care center which is smaller than the expanded department, featuring a merchandise assortment limited by available space.

These three versions of the home care center are proving to be testing grounds for new products that eventually appear on the shelves of its traditional hardware departments, Jones said. Such new additions have recently included portable electric generators, wood clamps and arc welders.

Although K mart is being the most aggressive of the three in hardware, both Wal-

(Continued on page 175)

K mart Excels in Hardware

Percent of shoppers who mainly spent their money on hardware/tools at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	6.6%	5.1%	4.3%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	8.0	3.6	4.1
In Non-Metro Areas (Rural)	3.3	3.8	4.9

Source: Leo J. Shapiro & Associates/DSN, December 1987

LUCITE
CUSTOM COLOR CENTER
INTERIOR & EXTERIOR COLORS

Wal-Mart's presence in smaller markets often positions the discounter as a destination store for hardware, paint and other home improvement products.

Target latex flat wall
enamel
FLAT WALL
5.88

Despite its soft goods image, Target has been expanding assortments, improving depth and upgrading merchandise in its hardware and home improvement categories.

(DSN photos)

K mart Leads in Hardware; Develops Home Care Centers

(Continued from page 173)

Mart and Target have been expanding their assortments, improving depth and upgrading their merchandise.

For example, Wal-Mart was the first of the three discounters to begin offering Schlage's new Keepsafer Compact Home Security System, even though K mart and Target worked with Schlage to develop it.

But since last January when Wal-Mart started selling the Schlage Keepsafer Compact at 35 stores, only 50 to 70 stores currently have the item. Target added the system last April and has it available in all its stores, and K mart, now offering it at 400 stores, will have the Keepsafer Compact in all stores by next Christmas.

The Keepsafer system was developed by Schlage with the assistance of K mart and Target because both companies expressed an interest in developing a home security product that cracked the $100 price point, was convenient to stock and appealed to a specific demographic audience: females between 25 and 40 years old, married, with children and household incomes of $25,000 to $35,000, said Markes, of Schlage.

Home Security

Home security is only one product area in the hardware department that these retailers are showing a more aggressive stance on than in recent years.

A spokesman for Black & Decker, the Maryland-based power tool supplier, said that these retailers are also looking for more cordless tools, such as the cordless screwdriver, which it just started to ship. And, Rayovac, the Wisconsin battery company, noted that the top discounters are "getting very aggressive" with promotions on batteries.

In fact, merchandising is taking on a new luster in the hardware department, particularly with batteries.

Now thought of mainly as a hardware item, batteries originally were merchandised in the sporting goods department. Now they are cross-merchandised throughout the store in such departments as toys, automotives, electronics and photography, in addition to hardware, sporting goods and at the checkout area. And, they are advertised now.

The competitive arena of hardware is shaking out the sales dollars into distinct categories.

The Shapiro survey revealed that when it comes to actually spending money at these retailers, Target customers bought more hardware products if a Wal-Mart store was in the same market. K mart did best if shoppers could chose among the three discounters, but lost out if it faced just Wal-Mart.

And Wal-Mart did best if it was by itself in a market. It was the least successful in the hardware category if it faced K mart, the study showed.

Despite its small market thrust, Wal-Mart did especially well in hardware in large metro stores—populations of 1 million or more. These urban stores attracted more hardware buyers than they did in small metro areas—populations of 50,000 to 1 million—and in non-metro communities. This is probably due to its sharp pricing advantage over its competitors.

In the large metro areas, 5.1 percent of Wal-Mart shoppers said they mainly spent their money on hardware products during their visits to the store in the past year, compared to 3.6 percent in small metro areas and 3.8 percent in non-metro communities.

The competitive arena of hardware is shaking out the sales dollars into distinct categories.

K mart was the most successful of the three retailers in both large and small metro areas where the greatest number of its home care centers are located. Small metro area stores did best in hardware, with 8 percent of shoppers citing hardware as the category in which they mainly spent their money at K mart during the past year. In large metro areas, that percentage fell to 6.6 percent, and to 3.3 percent in non-metro markets.

Despite Target's metropolitan thrust, it did best in hardware sales in the non-metro areas. Nearly 5 percent of Target shoppers in non-metro areas named hardware as the category in which they mainly spent their Target dollars during the past year, compared to 4.1 percent in small metro areas and 4.3 percent in large metro areas.

DSN market visits to Austin, Tex., Memphis, Tenn., St. Louis, and Wichita, Kan., revealed that Wal-Mart offered the lowest everyday prices of the three chains throughout the hardware department. K mart and Target were almost even, offering about the same number of "highest" and "lowest" prices in this category.

On nine hardware products in these markets, Wal-Mart offered the lowest price on more than half the items. Target was lowest on about 20 percent of the items, and K mart was lowest priced on about 17 percent. Target was the highest on about 40 percent of the items. Wal-Mart was highest on only 5 percent, and K mart was highest on 36 percent of the product.

For example, a Stanley Powerlock tape measure, model 33-116, was priced at $7.94 in a St. Louis Wal-Mart. K mart charged its St. Louis customers $11.47 for the same tape measure and Target priced it at $12.49.

These prices do not hold firm in the other markets. In Austin and Memphis, for example, Wal-Mart charged customers $8.86 for the same tape measure. Target's price held firm at $12.49 but K mart was sharper at $8.46 in Memphis and $8.49 in Austin.

On a B&D finishing sander, model 7448, the price fluctuated from a low of $22.76 by K mart in Memphis to a high of $26.97 by K mart in Austin and St. Louis.

Black & Decker's Dustbuster, model 9330, also saw price fluctuations, from a low of Wal-Mart's $21.98 in Memphis to a high of $27.87 by K mart in Austin and St. Louis.

And, a single 9-volt Duracell battery ranged from a low of $1.56 by K mart and Wal-Mart in Memphis to $2.19 by Target in Austin.

MARKET BASKET: Hardware

Prices on selected hardware products sold at all three chains

Market	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448			
Austin, Tex.	$26.97	$24.58	$23.49
Memphis, Tenn.	22.76	24.58	23.49
St. Louis, Mo.	26.97	24.58	23.49
Wichita, Kan.	25.99	24.58	25.99
Black & Decker circular saw, No. 7308			
Austin	49.97[1]	39.91[1]	39.99[1]
Memphis	46.99[2]	39.96[2]	39.99[2]
St. Louis	31.97	31.96	31.99
Wichita	28.96	31.96	31.99
Black & Decker ⅜-in. drill, No. 7143			
Austin	25.97	21.96	26.39
Memphis (7144)	26.97[2]	29.97[2]	26.39[2]
St. Louis	25.97	18.96	22.99
Wichita	25.97	21.96	26.39[1]
Black & Decker Dustbuster, No. 9330			
Austin	27.87	24.64	23.99
Memphis	N	21.98	24.49
St. Louis	27.87	24.64	24.49
Wichita	N	24.64	24.99
Duracell batteries, 9-volt, 1-pack			
Austin	1.99	1.83	2.19
Memphis	1.56	1.56	1.59
St. Louis	1.99	1.98	1.94
3M sandpaper, assorted, 5 sheets, 9-in. by 11-in.			
Austin	1.89	1.88	1.79
Memphis	N	1.88	1.79
Wichita	1.78[3]	N	1.79
House paint, 1-gal. acrylic, exterior, white			
Austin	14.47[4]	10.44[5]	12.99[6]
Memphis	14.97[6]	10.44[5]	9.99[6]
St. Louis	15.97[6]	9.00[5]	10.49[6]
Wichita	10.99[6]	10.44[5]	10.49[6]
Stanley saw, 26-in. crosscut, No. 15350			
Austin	7.97	7.96	N
Memphis	4.71[7]	4.78[7]	4.79[7]
St. Louis	7.97	4.78	7.99
Wichita	7.97	7.96	9.99
Stanley Powerlock tape measure, 16-ft. by ¾-in.			
Austin	8.49	8.86	12.49
Memphis	8.46	8.86	12.49
St. Louis	11.47	7.94	12.49

[1] No. 7391; [2] No. 7144; [3] Norton; [4] Dutch Boy; [5] Lucite; [6] Glidden; [7] No. 726

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock *Source:* DSN *research*

Super J-can®
Portable Gasoline Container From Reliance
. . . with the INTER-LOK® One Piece Spout System
Easy carry . . . easy pour . . . easy store
• A quarter turn of the wrist snaps the Inter-Lok spout securely into place
• Creates a tight, leakproof connection
• Reverse the spout into the container for easy storage
• It's a snap!
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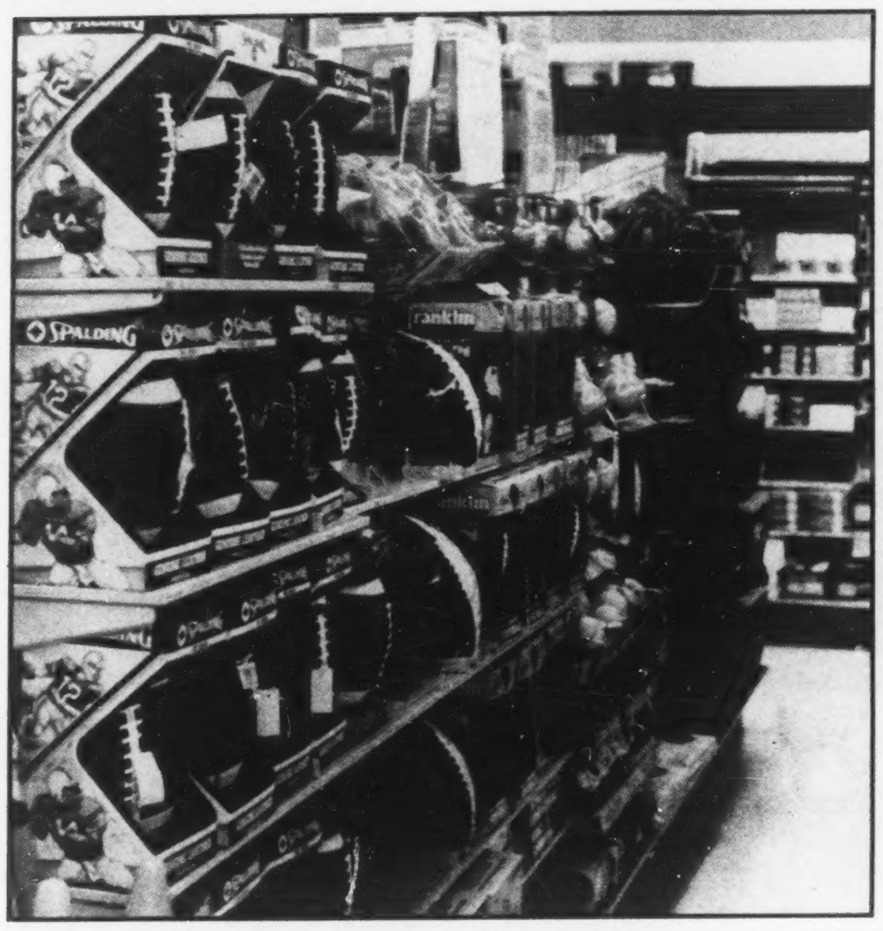
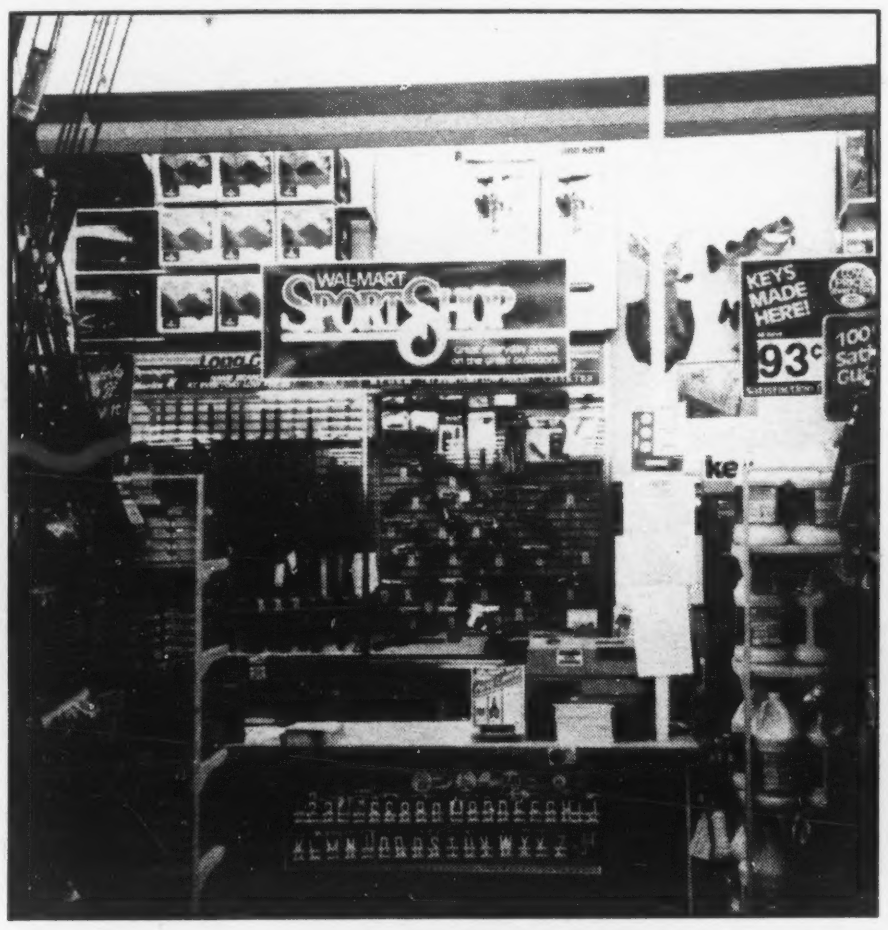


K mart, Metairie, La.: In basic team sports and fishing equipment, 'K mart is the best in the country,' said one sporting goods competitor.



Wal-Mart, Eureka, Mo., maintains a strong in-stock position for its essentially blue collar sports enthusiast.

Sporting Goods
SALE

Target, with a more upscale product selection, especially in tennis and camping goods, appeals to a more white collar sports consumer. (DSN photos)

Chains Build on Strengths in Sporting Goods

For many discounters, sales and margins in sporting goods departments have not kept pace with other more profitable areas, sometimes resulting in a de-emphasis of the category.

But that trend isn't true with K mart, Wal-Mart and Target, which are maintaining or even building their sporting goods presence, according to several of their vendors.

The explanation? "The reason most chains are retrenching is because the Big Three aren't," one vendor said. "K mart and Wal-Mart, between them, dominate the sporting goods market. They account for 50 percent of retail sales in some categories, and sometimes consume 60 percent or 70 percent of some manufacturers' output."

On the whole, suppliers hold a high opinion of all three retailers. "They know their consumer," one said. "K mart, in particular, upscaled when it became obvious that that's where the market was headed." That manufacturer cited K mart's aggressiveness at Christmas as key to making sporting goods a year-round business.

"By actively promoting sports equipment as ideal gift material, they also built themselves up as the place to buy sporting goods," he said.

However, Wal-Mart, with its primarily southern, rural locations, may be even stronger in its markets than K mart is nationally. "The store count may be two to one, but I doubt the department sales are," he said. Target, on the other hand, was viewed as "less than a power" in the category, due to its far lower store count and its primarily urban locations.

Other vendors agreed with many of those observations, although admiration for Target's merchandising capability was a bit more pronounced with several.

"Target is the best of the three in merchandising know-how," said one supplier. "The company has great responsibility to product and price, makes its decisions very early, and is highly systemized.

Sportsmen Choose K mart

Percent of shoppers who mainly spent their money on sporting goods/fishing equipment at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	4.7%	4.7%	3.6%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	5.0	1.8	3.6
In Non-Metro Areas (Rural)	6.4	5.5	1.6

Source: Leo J. Shapiro & Associates/DSN, December 1987

"K mart is the opposite; they're so busy importing direct that they've lost touch with the market. Their buyers are trying to be product designers, which they're not, that they don't have time for vendors or market research. Consequently, they don't have the best goods anymore, because they're two or three years behind the market."

The vendor, who requested anonymity, added that Wal-Mart, with near monopolies in many of its markets, hasn't had to be in the forefront. "They have the lowest prices—and they should," he said. "They have a lot of superfluous goods and terrible packaging, but where else are their customers going to go? Wal-Mart looks great in the boondocks, but not so good in major markets where it has to meet real competition."

Research Concurred

The latter observation was at least partially borne out by research conducted for *DSN* by Leo J. Shapiro and Associates this fall. Respondents who said that they had one or more of the three chains in their area were asked, among other things, if they had shopped the store in the past year. In small metro/non-metro areas, over 83 percent of respondents had shopped Wal-Mart in the past year; in metro areas of over a million population, the percentage was 62.6, a significant drop.

While K mart showed a similar, but less pronounced drop (84 percent in small metro/non-metro areas vs. 75.7 percent in big metro areas), Target, with primarily urban locations, rose from 70 percent in small metro/non-metro markets to 77 percent in the bigger cities.

A long-time sporting goods retailer, on the other hand, felt that all three share the same strengths and weaknesses. "In cheap team sports and fishing equipment, K mart is the best in the country," he said. "Wal-Mart and Target are in roughly the same boat, but not on the same scale."

He added that all three maintain very strong in-stock positions and are essentially battling each other for the blue collar market. "The upscale customer or specialist does not think K mart when he decides where to shop," he said.

Top brand suppliers were considerably more circumspect when talking about any of the Big Three, whether or not they dealt with all of them. "We won't deal with one of them, but I'm not going to say which one," one athletic goods supplier said, adding that the other two were his best customers. "They're both knowledgeable and aggressive marketing forces, and we have no complaints," he said.

DSN's research bears out much of what vendors said about the Big Three. In the sporting goods category, all three were fairly evenly matched, although Target seemed to be surprisingly aggressive on price, often undercutting Wal-Mart (one of the few categories where that held true) and routinely beating K mart on price.

MARKET BASKET: Sporting Goods

Prices on selected sporting goods sold at all three chains

Market	K mart	Wal-Mart	Target
Zebco 33 Classic reel			
Memphis, Tenn.	$35.97	$31.47	N
Wichita, Kan.	29.97	29.78	N
Wilson Pro 1000 basketball			
Memphis	11.97	N	$ 9.99
St. Louis, Mo.	11.97	19.97	9.99
Wichita	11.97	19.96	9.99
Spalding Larry Bird vinyl basketball			
Austin, Tex.	N	14.93	14.99
Memphis	N	14.93	14.99
St. Louis	29.97	14.93	12.99
Wichita	14.97[1]	14.93	14.99
Coleman Polylite cooler, 48-qt.			
Austin	N	18.46	18.79
Wichita	18.77	N	18.79
Coleman standard 2-burner stove, No. 425F499			
Austin	30.97	34.26	30.79
Memphis	33.97	34.26	30.79
St. Louis	30.79	N	30.79
Wichita	30.79	34.26	30.79
Wilson mid-size American Aces tennis racquet			
Memphis	N	19.96	24.99[2]
St. Louis	25.97[2]	N	24.99[2]
Wichita	29.97[2]	19.96	24.99[2]

[1] Michael Jordan model; [2] with cover

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock *Source: DSN research*

Wal-Mart, in the markets surveyed by *DSN*, tended to be much stronger in guns, ammunition and archery, and also appeared to be better stocked all around. Target, contrary to what the vendors reported, seemed to be more likely to be out of stock or thinly stocked than did its rivals.

However, Target, along with its sharp prices, also tended to have more upscale products and had a distinct edge in product presentation. If, in fact, Wal-Mart and K mart are carving up the blue collar market, Target appears to be trying to attract white collar sports consumers. It may, in fact, view specialty sporting goods stores as its primary competition in the category. The company was particularly strong in tennis and camping goods, both of which appeal to the affluent customer.

According to the Shapiro research, Target tended to be more brand conscious than its rivals, and consumers tended to identify price orientation more with K mart and Wal-Mart than with Target, indicating, perhaps, a more "quality" image among shoppers.

That may be one of the reasons that Target, of the three, proves to be the most resistant to competition when at least one of the others has a store in its market, measured by decline in annual average customer expenditure.

While all three show declines when at least one of the others shares a market, Target's decline ($304 when unopposed, $295 with one competitor, $294 with two) is much smaller than K mart's ($257 when unopposed, $217 and $178 otherwise) or Wal-Mart's ($435 when unopposed, $355 and $253 otherwise).

Deodorants
Vitamins-Diet
Vitamin-mineral supplement guide
EXTRA SPECIAL VALUE
Dr. Scholl's warmth insoles
2 for 5.00

With sharp promotional prices in its health & beauty aids department, Target hopes to attract consumers to other, higher-margin departments within the store.

Big 3's Sharp H&BA Prices Lure Shoppers

A consumer might buy a jug of antifreeze twice a year, a new basketball every five years and a vacuum cleaner every 10 years, but health & beauty aids is a monthly, if not weekly purchase, a shopping frequency chains want to encourage.

The shopper probably knows the price she pays for her tube of toothpaste, deodorant and shampoo as well as she knows the ages of her own children due to the high usage rate of these items. The hope is, of course, that bare-bones margins on H&BA commodities will lead her to assume the store is low-priced on everything, and visit other departments before leaving.

In general, the lower the population density of a particular market, the greater the percentage of dollars spent at the Big Three's H&BA departments.

The Big Three discounters are sharp on pricing, nearly to a fault, according to sales and marketing executives with the leading H&BA manufacturers.

"Everyday pricing at Wal-Mart cannot be beat," is the consensus among vendors who do business with each of the three top chains. Target's promotional pricing outshines Wal-Mart's, they said, while K mart pricing was considered least price aggressive of these retailers on an everyday basis. K mart was said to be nearly on par with Target during ad weeks, however.

Target: Strong H&BA Source

Percent of shoppers who mainly spent their money on H&BA at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	10.7%	9.2%	8.2%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	13.2	14.5	20.6
In Non-Metro Areas (Rural)	13.9	19.5	19.2

Source: Leo J. Shapiro & Associates/DSN, December 1987

"When Wal-Mart and K mart have a promotional sale, they use their cubes and tables, which Target doesn't have. But Target can put the same merchandise on an endcap to create a wall of product that you just can't miss," one vendor noted.

Regardless of vendor impressions, a *DSN* price study conducted in October in four markets where each of the three chains operate stores indicated that K mart had the lowest prices on a small sampling of H&BA merchandise.

Adding the prices on six items that each chain offered in all of the markets studied, the K mart market basket totalled $51.55 compared with $53.16 at Target and $53.32 at Wal-Mart.

The six items (Ivory and Agree conditioners, Mennen and Secret deodorants, Colgate toothpaste and Vicks Nyquil) are not a large enough sampling to make any definitive conclusions about chain pricing, but can suggest that

(Continued on page 181)

Crest PRESENTS
Teddy Ruxpin
TOOTH CARE SWEEPSTAKES
Crest
GREAT EVERYDAY K mart PRICE!

On everyday prices, K mart tended to be higher than Wal-Mart and Target in H&BA. But its promotional activity, like this Crest/Teddy Ruxpin sweepstakes offer, is unparalleled. (DSN photos)

ares
$336
You Pay ONLY $2
Everyday Low Prices We Stand By It!
You Pay ONLY $228
3 $100
AS ADVERTISED
You Pay ONLY 97¢
Cover Girl

While its selection of H&BA products may be slightly narrower than K mart's or Target's, Wal-Mart is always well-stocked and holds the leadership in low everyday prices.

PHARMACY
GREAT EVERYDAY PRICE!
$1.34 - $1.97
GREAT EVERYDAY K mart PRICE!
GREAT EVERYDAY K mart PRICE!

Shampoo is displayed on three- and four-shelf stackouts in health & beauty aids department of this Metairie, La., K mart store.

(DSN photos)

MARKET BASKET: Health & Beauty Aids

Prices on selected H&BA products sold at all three chains

Market	K mart	Wal-Mart	Target
Ivory conditioner, normal, 15-oz.			
Austin, Tex.	$1.67	$1.68	$1.69
Memphis, Tenn.	1.50	1.50	1.49
St. Louis, Mo.	1.59	1.65	1.59
Wichita, Kan.	1.68	1.48	1.69
Agree conditioner, reg., 15-oz.			
Austin	2.67	1.99	2.39
Memphis	1.94	1.94	1.99
St. Louis	2.39	1.94	1.99
Wichita	2.37	1.94	2.39
Trojan condoms, reg., 12-pack			
Austin	3.66	2.48	2.39
Memphis	3.66	2.03	2.39
St. Louis	4.15	2.48	2.39
Wichita	3.36	2.48	8.99[1]
Mennen Speed Stick deodorant, reg., 2.5-oz.			
Austin	1.99	2.16	2.19
Memphis	1.76	2.16	1.79
St. Louis	1.99	1.86	1.59
Wichita	1.79	1.67	1.79
Crest tartar control toothpaste, 6.4-oz.			
Austin	N	1.56	1.59
Memphis	1.77	1.48	1.39
St. Louis	1.59	1.56	1.19
Wichita	1.28	1.28	1.29
Colgate toothpaste, reg., 7-oz.			
Austin	1.49	1.48	1.39
Memphis	1.36	1.48	1.39
St. Louis	1.29	1.48	1.29
Wichita	1.59	1.48	1.59
Secret Solid deodorant, 2-oz.			
Austin	2.43	1.92	2.59
Memphis	2.43	2.24	1.99
St. Louis	2.49	1.97	1.99
Wichita	2.29	1.97	2.59
Gillette Foamy shave cream, 11-oz.			
Austin	1.29	1.67	1.69
Memphis (sensitive skin formula)	1.97	1.48[2]	1.49
St. Louis	1.97	1.67	1.29
Wichita	1.97	1.67	1.69
Vicks Nyquil Nighttime cold medicine, 10-oz.			
Austin	4.49	4.08	4.49
Memphis	2.97	3.57	3.69
St. Louis	3.19	4.84	3.09
Wichita	2.19	4.84	4.49
Gillette Atra blade cartridges, 10-pack			
Austin	3.69	3.87	4.29
Memphis	3.49	3.48	3.49
St. Louis	3.94	3.87	3.94
Wichita	3.87[3]	3.76	4.29
Halls Mentholyptus, 30-count bag			
Austin	N	0.97	0.99
Memphis	1.14	0.81	0.99
St. Louis	1.07	N	0.99
Wichita	N	0.97	0.99

[1] 3-doz., [2] with 30¢ instant coupon, [3] 12-pack

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN research

Improvement Needed On Out-of-Stocks, Selection

(Continued from page 179)

store price impressions hinge on the type of H&BA products the individual customer buys.

None of the chains have a glaring problem when it comes to pricing, but there are deficiencies when it comes to keeping adequately stocked and offering a sufficient selection, vendors said.

A number of manufacturers said that Wal-Mart does not have the selection in H&BA that K mart and Target offer customers, but at least Wal-Mart is always well-stocked.

One vendor termed K mart's H&BA department as a "chronic catastrophy" as far as keeping in stock is concerned. Another believes the chain does not see out-of-stocks as much of a shortcoming.

"I'm not sure they see it as a problem. They think they have a wide enough selection. They assume a consumer will just pick up something else- . . . being out of stock doesn't really matter in H&BA."

While Target's H&BA stock situation was considered to be good, there was some concern as to whether the chain's stores will soon resemble K mart's.

"Target's new JIT—Just In Time system—means promotional goods won't be warehoused but will be sent directly to stores, and could cause out-of-stock problems," one vendor noted. None of the manufacturers said they have had any problem with JIT to date.

Heavy Traffic

While purchases made in almost any other discounter department would generate greater total revenue for the retailer, H&BA was cited by as much as 21 percent of customers recently surveyed as the category they spent most of their discounter dollars on during the past year.

A telephone survey of 1,800 heads of households across the country by Leo J. Shapiro & Associates indicated that, in general, the lower the population density of a particular market, the greater the percentage of dollars spent at the Big Three's H&BA departments.

As might be expected, K mart's H&BA category claimed the most dollars in metropolitan areas, with 11 percent of shoppers citing H&BA as the category in which they mainly spent their money at K mart during the past year. Wal-Mart edged out Target in non-metro/rural areas—20 percent of Wal-Mart shoppers said they mainly spent their Wal-Mart dollars on H&BA products during the past year vs. 19 percent of Target's shoppers.

In small metro areas, cities of 50,000 to 1 million people, Target outdistanced the other two chains: 21 percent of Target shoppers mainly spent their money in the H&BA department, compared with 15 percent at Wal-Mart and 13 percent at K mart.

Target, Wal-Mart Expand Home Office Items

Target and Wal-Mart are looking toward the future of the stationery department by expanding their offerings of home office products. Both these chains were cited by vendors as being aggressive in their stationery department merchandising strategies. For now at least, K mart appears less oriented toward the home office category but does offer a wide selection of basic, low-priced items in stationery.

"All three could improve their stationery departments by putting in a stronger year-round program instead of viewing stationery as a seasonal department," said one prominent vendor who asked not to be identified.

Fashion Foothold

A recent consumer survey of K mart, Wal-Mart and Target shoppers also revealed that Target's fashion foothold propels its stationery selection beyond department offerings at either K mart or Wal-Mart stores.

Color and style awareness in hard lines merchandise like stationery was evidently the vehicle that drove more Target customers to do most of their shopping within the department. In fact, when Target was in direct competition with K mart and Wal-Mart stationery departments, preference for Target heightened.

Regardless of whether the three chains were competing in metropolitan areas of over 1 million people, small metro areas with populations of 50,000 to 1 million, or non-metro areas, a larger percentage of Target customers said they mainly spent their money in the stationery department of the store than did shoppers at the other two chains.

The statistics were generated by a study of 1,800 people conducted for *DSN* by the Chicago-based Leo J. Shapiro & Associates research firm.

Nine percent of Target shoppers in metro areas said they mainly spent their money on stationery merchandise compared with 4 percent at Wal-Mart and 3 percent at K mart.

In both small and non-metro regions, nearly 7 percent of Target shoppers said they mainly spent their Target dollars in the stationery department, compared to 4 percent at Wal-Mart and between 2 percent and 3 percent at K mart.

Not only did more customers overall go to Target specifically to shop for stationery department products, the percentage of customers shopping Target mainly for stationery items actually increased when the upscale discounter shared a market with Wal-Mart. Target's fashion position along Wal-Mart's basics enhanced its image among consumers, vendor and industry sources acknowledged.

When Target was alone in a market area, 4 percent of its shoppers said they mainly spent their money in the discounter's stationery department. When the market was shared with K mart alone, there was no change in that percent.

Percentage Surges

But, when Wal-Mart shared the market with Target, the number of Target customers who said they mainly spent their money on stationery surged to 14 percent, and dropped to only 13 percent when all three of the discounters were in a market together.

When K mart was in a market without the other two chains, 2 percent of its customers said they mainly spent their K mart dollars on stationery. This number rose to 8 percent when all three competitors shared the market, but did not rise at all when just Target or just Wal-Mart were present.

Wal-Mart was the only chain that showed a decline in all instances as competition increased. When alone in a market, 6 percent of Wal-Mart shoppers said they mainly spent their Wal-Mart dollars in stationery. With either a Target or a K mart in the area, the number dropped to 3 percent.

And, when all three big discounters shared a market, only 5 percent of Wal-Mart shoppers said they mainly spent their money on stationery at Wal-Mart.

The impact of price on these shopper habits was difficult to measure within the stationery department. While there are few substitutes for Visions cookware in housewares or Colgate toothpaste in health & beauty aids, the abundance of stationery vendors which produce essentially the same merchandise allow the Big Three to differentiate them-

(Continued on page 184)

Desktop System Set
HANGING FILE FOLDERS
Pendaflex
69.88
Oxford

Products for the home and office have carved out their own significant niche in K mart's stationery departments.

Color and style awareness helps drive more customers to Target for stationery products. (DSN photos)

MARKET BASKET: Stationery

Prices on selected stationery products sold at all three chains

	K mart	Wal-Mart	Target
Crayola markers, broad, 8-count, bright			
Austin, Tex.	$2.19	$1.96	$1.99
Memphis, Tenn.	1.67	1.96	1.99
St. Louis, Mo.	2.19	1.96	2.19
Wichita, Kan.	2.19	N	1.99
Bic 10-pack Biro pens, medium blue			
Austin	1.38	1.00	N
Memphis	1.00	1.34	N
St. Louis	1.38	1.34	1.39
Wichita	1.38	0.89	N
Papermate 10-pack pens, medium blue			
Austin	1.38	1.34	1.39
Memphis	1.38	1.34	1.39
Wichita	1.38	0.94	1.39
Generic filler paper, wide ruled, 200 sheets			
Austin	0.59	0.63	0.59
St. Louis	0.69	0.63	0.57
Wichita	N	0.63	0.59

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN *research*

Wal-Mart's stationery department gets squeezed when faced with competition from one or both of the other major discounters, according to consumer research. (DSN photo)

In Stationery, Target Leads the Race

Percent of shoppers who mainly spent their money on stationery/school supplies at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	3.3%	4.2%	8.5%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	2.2	4.2	6.6
In Non-Metro Areas (Rural)	2.6	4.0	6.6

Source: Leo J. Shapiro & Associates/DSN, December 1987

K mart Sticks to Basics

(Continued from page 183)

selves from one another by relying on alternate sources.

For example, Mead is more integral to the Wal-Mart and Target stationery selections than to K mart's, according to *DSN's* 1987 Top Brands survey, released earlier this year. Just 24 percent of store managers at K mart named that vendor as a leading department brand, compared with 70 percent at the two other chains.

By selecting to work with the stationery manufacturers that are not used by the competition, K mart, Wal-Mart and Target escape direct price competition from each other. As a result, a market basket study conducted by *DSN* at these chains in five market areas was difficult to complete.

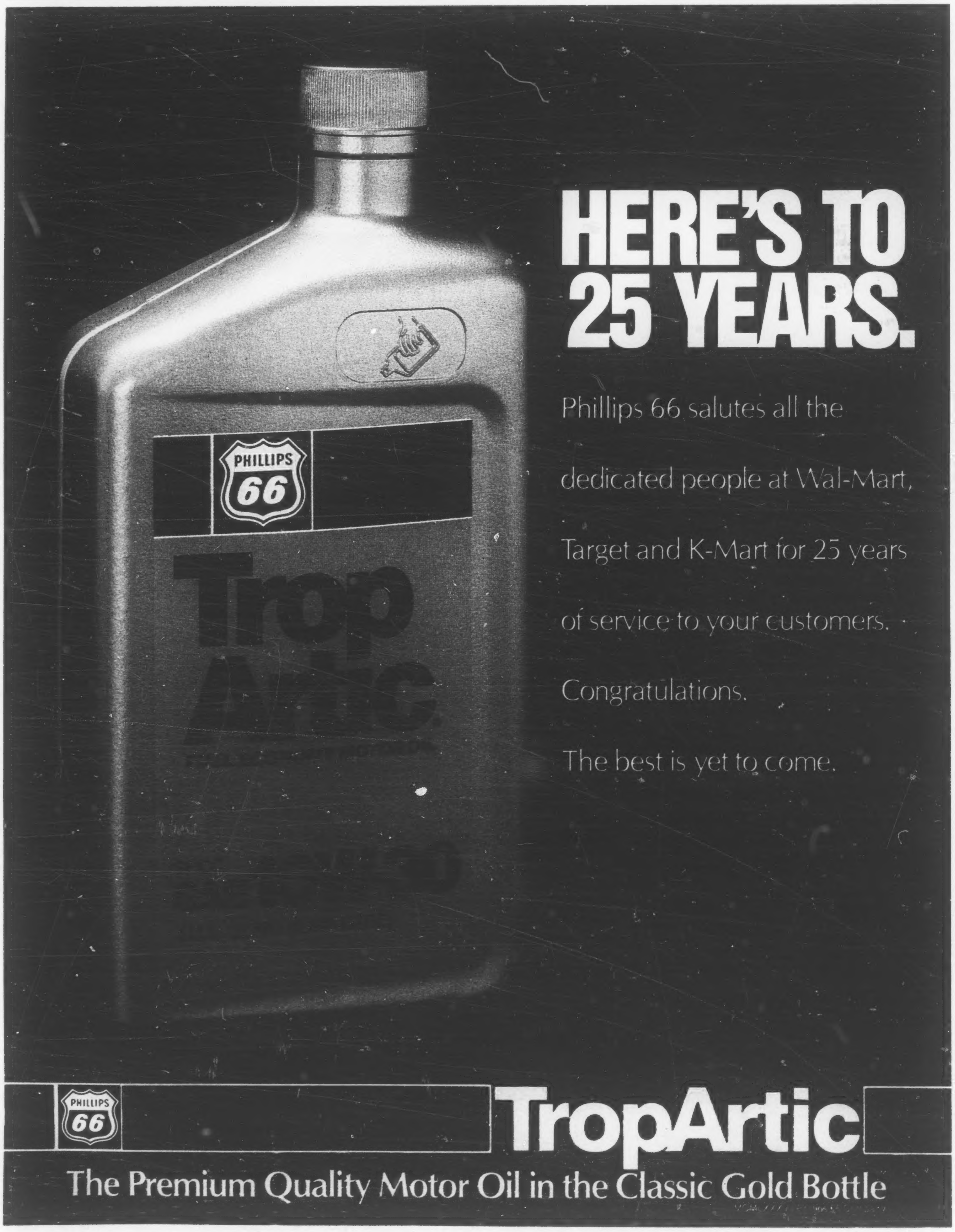
Target's storewide fashion image could be a fundamental reason for the higher spend rate in stationery, a category that has become increasingly driven by color and style.

Target's storewide fashion image would appear to be a fundamental stimulus fueling the higher spend rate in the chain's stationery department, a category that has become increasingly driven by color and style.

"Target is certainly the strongest in stationery fashion of the three," said an industry source, who added that Target's overall category appearance is better because it is serviced by rack jobbers, while no Wal-Mart and few K mart stores have serviced stationery departments.

K mart, which has been fingered by vendors as the worst out-of-stock offender of the top three chains, could be feeling the effects of poor maintenance in terms of dollars spent in the department.

Substituting one shampoo for another that is not in stock might not be uncommon. But an industry supplier pointed out that in stationery, if a child's teacher said to come to class the next day equipped with a 16-count box of crayons and an 8½-inch by 11-inch. composition book and the shelves are not stocked with these basics, the child and money-toting parent might not be back next school year.


HERE'S TO 25 YEARS.
Phillips 66 salutes all the dedicated people at Wal-Mart, Target and K-Mart for 25 years of service to your customers.
Congratulations.
The best is yet to come.
PHILLIPS 66
Trop Artic
PHILLIPS 66
TropArtic
The Premium Quality Motor Oil in the Classic Gold Bottle

Variety of Foods Increasing But Snacks Still Integral

In May, a K mart store in Largo, Fla., held a wine tasting program in the front of the store to promote a specific brand of wine.

Such a promotion is a clear sign that the food department at discount stores has grown beyond the traditionally-stocked items like chips, soft drinks and candy.

In fact, food, snacks and beverages are no longer stocked by discounters just for spontaneous add-on sales, but are being used increasingly as "drive items," several industry experts said.

"Everybody eats, and if you can have a food product in your ads that people notice, you'll draw a crowd,'' observed Joe Dobson, buyer for packaged deli products, beer and wine at K mart.

Wal-Mart Draws Food Shoppers

Percent of shoppers who mainly spent their money on food at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	1.9%	5.4%	1.3%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	0.6	4.4	0.9
In Non-Metro Areas (Rural)	1.2	0.8	0.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

As a department, food, including candy, chips, soft drinks and now beer and wine, is being expanded by discounters, particularly K mart, Wal-Mart and Target, several suppliers said.

Food offers consistently high turns and respectable margins. For example, beer turns 20 to 30 times a year and wine 10 to 15 times at K mart, Dobson said. Soft drinks turn 50 times a year, and candy even more than that.

These items continue to be particularly strong sellers for discounters. "Real" foodstuffs have not yet made a major impact on category sales, although K mart and Wal-Mart are fairly successful with many of these items, and are expected to improve.

For example, pigs' feet and ham hocks are "basic" items at K mart, and have been for years. Canned fish is also popular, as are fruit juices and macaroni and cheese dinners, Dobson said.

And now bursting onto discounters' shelves with instant success are microwaveable foods such as popcorn and cake mixes. Dobson anticipates that in the near future, microwaveable entrees will be available, too.

The challenge facing discounters choosing to sell "food" is in being priced below supermarkets, Dobson noted. For now, though, snack foods, candy and soft drinks remain the core of the food business for these three retailers. These products consistently find their way onto ad pages and frequently are featured on special sale tables along high traffic aisles.

Several manufacturers told *DSN* that Target is particularly strong in its presentation of soft drinks because it has made a strong commitment to this merchandise. Regular foodstuffs are not as important at Target, and generally are purchased for special or seasonal promotions.

Wal-Mart is strongest in name brand snacks, particularly confectionary, where it has recently made a major change in its presentation.

The Bentonville, Ark.-based discounter has upgraded its front-end confectionary program from primarily gum and mints to an assortment of candy, including single candy bars and multi-packs.

Target also increased its candy presentation, displaying single candy bars at alternate checkouts.

K mart upgraded its confectionary presentation, too. It added one more checkout for candy, which features the large or king-size candy bars.

"It's just extra business," said one major confectionary supplier, who noted that 82 percent of candy bar sales are purchased on impulse.

"You either get it or you don't depending on availability," he said, adding "accessibility is a big part of sales."

K mart has taken that statement to heart.

Nearly three years ago, K mart converted 30 to 40 of its cafeteria areas to specialty food and beverage departments, plus expanded the food areas at 300 to 400 other K mart stores.

In addition to snack foods, K mart collected a variety of "basic" food products like pigs' feet, ham hocks and macaroni and cheese dinners and paired them with such gourmet food items as caviar and anchovies.

Although shoppers failed to see K mart as the place to buy caviar, they did accept the discounter as a place to buy some basic food products. Since then, K mart has continued to refine its food mix to appeal to local tastes and to keep up with new product introductions, Dobson explained.

Despite these efforts to drive sales in the food, snack and beverage departments, these items continue to be purchased mostly on impulse.

According to a recent Leo J. Shapiro survey of buying habits at K mart, Wal-Mart and Target, shoppers do not place food very high on their lists when they go to these stores, nor do they spend a substantial amount of money on them at these stores.

Canned fish is among the most popular food items found in this Sterling Heights, Mich., K mart.

When consumers were asked what they mainly spent their money on when shopping these three stores, food hardly elicited a response.

The highest response was at Wal-Mart, with fewer than 3 percent of its shoppers saying they mainly spent their money on food when in the stores. The response rate to food slightly outpaced responses for small electric appliances, tapes and film, pharmacy, gifts and presents, infant furniture and domestics.

K mart shoppers listed food above tapes and film, drapes, curtains and blinds, and infant clothing. At Target, food fared better than infant clothing, pharmacy, drapes and curtains, and craft materials.

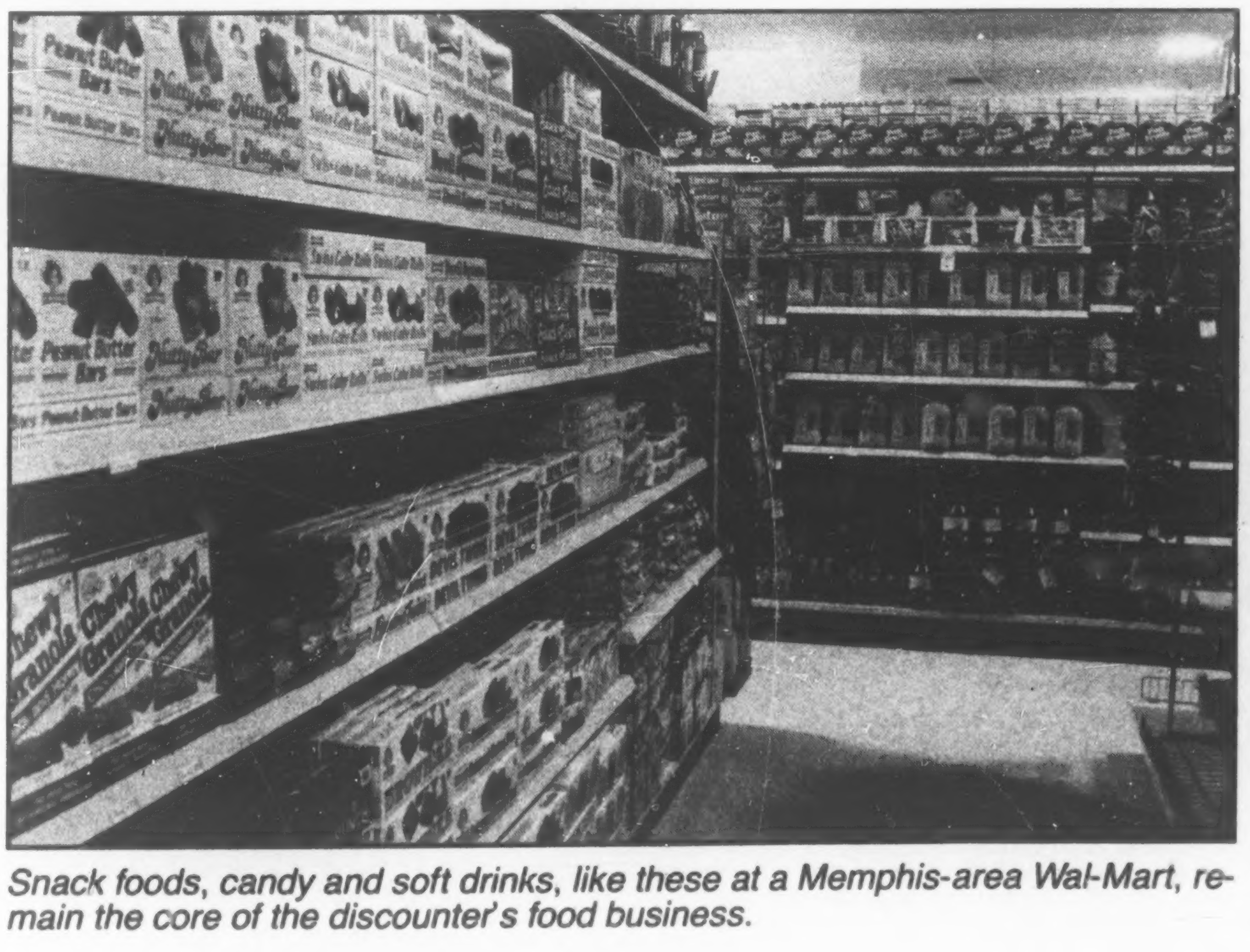
When measured against one another, K mart's food department did best when it faced both Wal-Mart and Target in a market, but did poorly when it faced either one individually. In fact, when it faced either Wal-Mart or Target in a market, no consumer responses were recorded when shoppers were asked what they mainly spent their money on when in the store.

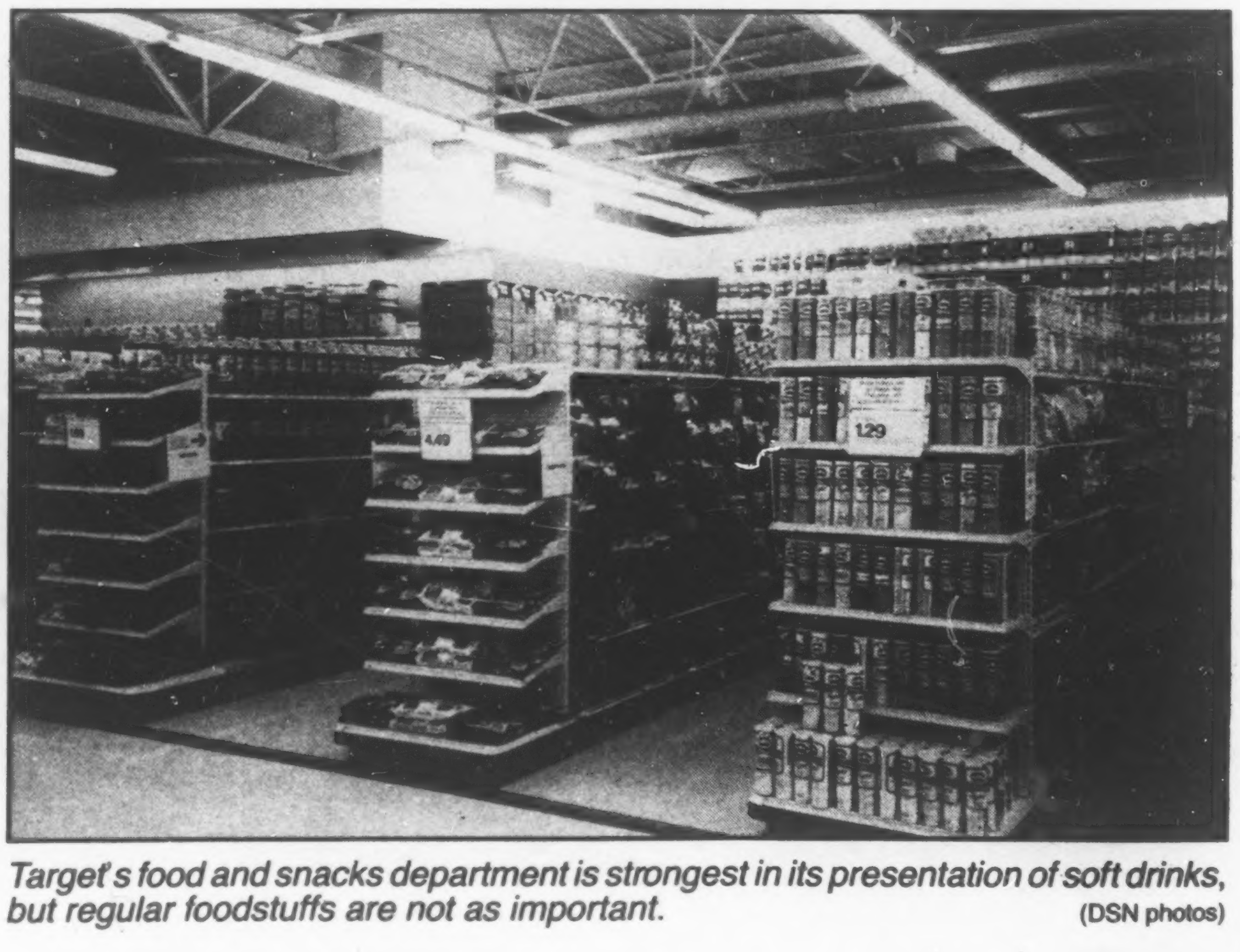
Wal-Mart substantially outgunned its competition in the food department when it faced competition, according to survey results. But against K mart alone, consumers provided no responses.

Target did best when it was alone in a market or when its rival was just Wal-Mart. It did poorly against K mart alone and when it faced both Wal-Mart and Target in the same market, recording no consumer responses.

By market size, Wal-Mart performed best in both large and small metro areas, dramatically outpacing both Target and K mart in food sales.

All three did poorly in nonmetro areas, however, probably due to their smaller stores with limited food sku's.


Snack foods, candy and soft drinks, like these at a Memphis-area Wal-Mart, remain the core of the discounter's food business.


Target's food and snacks department is strongest in its presentation of soft drinks, but regular foodstuffs are not as important.

(DSN photos)

Earnings at Discounters Squeezed in Soft Third Quarter

(Continued from page 7)

percent sales gain.

Target's third quarter sales rose 19 percent to $1.22 billion from $1.02 billion a year ago. Same store sales crept up 2 percent. D-H does not release Target's quarterly operating profit, but did say it declined "slightly." Chairman Kenneth A. Macke blamed the earnings decline on "expenses related to an aggressive store opening program," including 35 Target stores and 10 Mervyn's stores.

Among the Target openings were 24 units in California, the remainder of 50 acquired and converted from Gemco. Those conversion expenses alone hurt third quarter earnings by $10 million, or 6 cents a share.

At Bradlees' parent, Stop & Shop, third quarter profits rose 9 percent on a 10 percent sales gain. But Bradlees' contribution to net earnings fell.

In this year's third quarter, Bradlees contributed 33.4 percent, or $6.9 million, of corporate operating profits, down from 56.7 percent, or $13.6 million, a year ago.

Sales during the third quarter rose to $1.4 billion from $1.27 billion a year ago.

Chairman Arvan J. Goldberg said "Bradlees' sales were very soft at the end of the third quarter. "Pre-Thanksgiving sales at the beginning of our all-important Christmas selling period showed signs of strengthening, with comparable stores again running ahead."

Citing continuing inventory problems, Ames Department Stores said its third quarter profits fell 33.5 percent to $7.35 million, or 20 cents a share, from $11.1 million and 30 cents a share in the previous year's quarter.

Sales rose 8.5 percent to $512.7 million in the third period from $472.4 million last year. Comparable store sales rose 4.6 percent.

For the nine months, net earnings were $16.1 million, compared to $23.1 million in 1986. Sales for the nine months rose to $1.45 billion, up 12.5 percent from $1.29 billion last year.

Net profits of Zayre Corp. slipped 7.6 percent on a 21.7 percent sales increase, largely because operating profits of its Zayre Stores division plunged 71.5 percent.

Net income for the corporation slipped to $21.1 million, or 36 cents a share, from $22.9 million and 38 cents a share.

Operating income for Zayre Stores alone plunged to $7.6 million from $26.7 million in the third quarter of 1986.

Zayre chairman Maurice Segall attributed the decline to "an aggressive pricing and advertising posture which led to reduced merchandise margins and gross profit dollars."

Sales for the entire corporation totaled $1.6 billion for the quarter, compared to $1.32 billion a year earlier. Sales for Zayre Stores rose to $849.7 million from $710.9 million.

In sharp contrast, Hills Department Stores reported a whopping 92 percent gain in third quarter profits on a 14.4 percent sales increase as it whittled down its net loss for the year to date.

Net income for the third quarter rose to $9.7 million, equal to 48 cents a share, from $5.1 million and 34 cents a share a year ago. That helped to reduce losses for the first nine months to $13.5 million, down from losses of $63.4 million in the same span of 1986.

Sales for the 1987 third quarter rose to $410.8 million from $359.2 a year ago. Same store sales rose 5.3 percent.

For the nine months, Hills' sales rose to $1.01 billion from $887.6 billion a year earlier.

Jamesway reported an 11.5 percent decline in third quarter profits to $3.7 million from $4.1 million in the same quarter last year. Sales rose 14 percent to $171 million from $150.4 million a year ago.

For the nine months, Jamesway profits rose to $7.8 million from $7.6 million a year ago. Sales rose to $472.6 million from $409.9 million.

May Department Stores, parent of Venture and Caldor, reported a 21 percent profit gain on a 7.5 percent sales rise in the third quarter.

Sales for its discount division, primarily Venture and Caldor, rose 10.2 percent to $627 million from $569 million. A Shearson-Lehman Brothers analyst reported, however, that sales rose 6 percent at Venture. Gross margins and operating expense ratio deteriorated, said the analyst, Stacy Ruchlamer, because of stiff competition in the Midwest from new Wal-Marts and the revitalized K mart. Sales at Caldor rose 13.7 percent, Ruchlamer said, but its gross margins also worsened after it cut prices to compete better in its Northeast market.

Discounter Sales Climb in November

(Continued from page 5)

lion from $1.3 billion. K mart however, had only a 6.6 percent increase to $2.1 billion from $2 billion.

Strong gains were recorded by Ross Stores, up 18 percent to 53 million from $45 million; Ames, up 17.5 percent to $212.5 million from $180.9 million; Zayre, up 15.3 percent to $619 million from $537 million; TJX (T.J. Maxx and Hit or Miss), up 14.6 percent to $158.9 million from $138.6 million; and Jamesway, up 14 percent to $73.9 million from $65 million.

Much smaller gains were reported by Caldor, up 8.1 percent to $136.2 million from $126 million; Bradlees, up 6 percent to $213 million $201 million; Loehmann's, up 5.3 percent to $31.9 million from $30.3 million; and Venture, up 1.1 percent to $114.1 million from $112.9 million.

Best Products had an 8.2 percent sales decline to $226.6 million from $246.9 million, while the discount store division of Federated Department Stores (Gold Circle) was down 4.1 percent to $89.2 million from $93 million.

Sales at the major mass merchandise chains showed small gains, with Montgomery Ward the leader with a 7.5 percent increase to $451 million from $419.5 million. J.C. Penney was up 4.3 percent to $1.4 billion from $1.36 billion, while Sears' merchandising group increased 0.7 percent to $2.8 billion from $2.7 billion.

Same store sales gains were reported by Ames, 13 percent; Ross Stores, 10 percent; Caldor, 8.2 percent; Loehmann's, 5.3 percent; Montgomery Ward, 5.2 percent; Jamesway, 5 percent; Wal-Mart, 4 percent; Bradless, 2 percent; Venture, 1 percent.

Bi-Mart Launches New Prototype

(Continued from page 5)

carry a nearly equal distribution of typical hard lines categories, Bi-Mart has realigned the departments for better traffic flow and sales.

Health & beauty aids and over-the-counter products are now adjacent, instead of being separated by greeting cards, which has been updated with new fixtures. Electronics now includes the sale of prerecorded videotapes, and housewares has been extended toward the rear of the store to move more female customers to the predominately male-oriented back half of the store.

Other layout changes include a break in the back row of gondolas, which Ward said gives Bi-Mart additional endcaps to work with, while making it easier to shop.

Hardware has been given a more do-it-yourself focus, and several other categories have been enlarged, including candy, snacks and cosmetics.

In cosmetics, Bi-Mart actually created an entire new area, and by tiling the section, the chain stepped away from its normal concrete flooring.

Prior to the new prototype, Bi-Mart's cosmetics were limited to a row of gondolas, which primarily featured just a minimum, basic selection. Now the new cosmetics areas feature not only products by the leading manufacturers, but also implements, fragrances and a service counter.

Cosmetics have also been relocated to the front of the store, in a three-sided area between the checkouts and over-the-counter products. Directly across the front, in a lengthwise aisle from the cosmetics area, are the remaining H&BA products.

Although Bi-Mart increased its cosmetics selection, it is difficult to determine the exact gain because additional merchandise was being stocked for the holiday season, said Dave Zientara, vice president of administration.

While H&BA and OTC are strong sales leaders at Bi-Mart, Ward said sales distribution is fairly equal among each department.

The new prototype features service counters in cosmetics, photo, hardware and a combined automotives and sporting goods station. Previously, automotives and sporting goods had separate service counters and there was no cosmetics counter.

Exterior pharmacy windows have been eliminated in the new stores; however, Bi-Mart said it will probably leave this additional counter in its existing stores.

While the Bi-Marts have been updated, Zientara said the chain was careful to retain its discount store customer base and image. The membership policy—$2 for a lifetime family plan—remains intact.

It is the membership policy, along with a broad merchandise mix and low prices, which Ward and Zientara credit for the discounter's strength.

Customer loyalty and strong position in the market—where the chain faces Fred Meyer, K mart and Pay Less NW drug stores—has provided a steady and consistent base in the last year for the Pay 'n Save subsidiary.

Bi-Mart's importance to Pay 'n Save was evident in the parent company's third quarter report, which showed that the Eugene, Ore.-based subsidiary accounted for over one-third of total sales volume. Of Pay 'n Save's $177 million in quarterly sales, Bi-Mart contributed $62.3 million, even though, at the close of the quarter, Bi-Mart operated only 34 stores to Pay 'n Save's 100 drug stores.

Bi-Mart opened three units in the fourth quarter and plans to add three stores next year.

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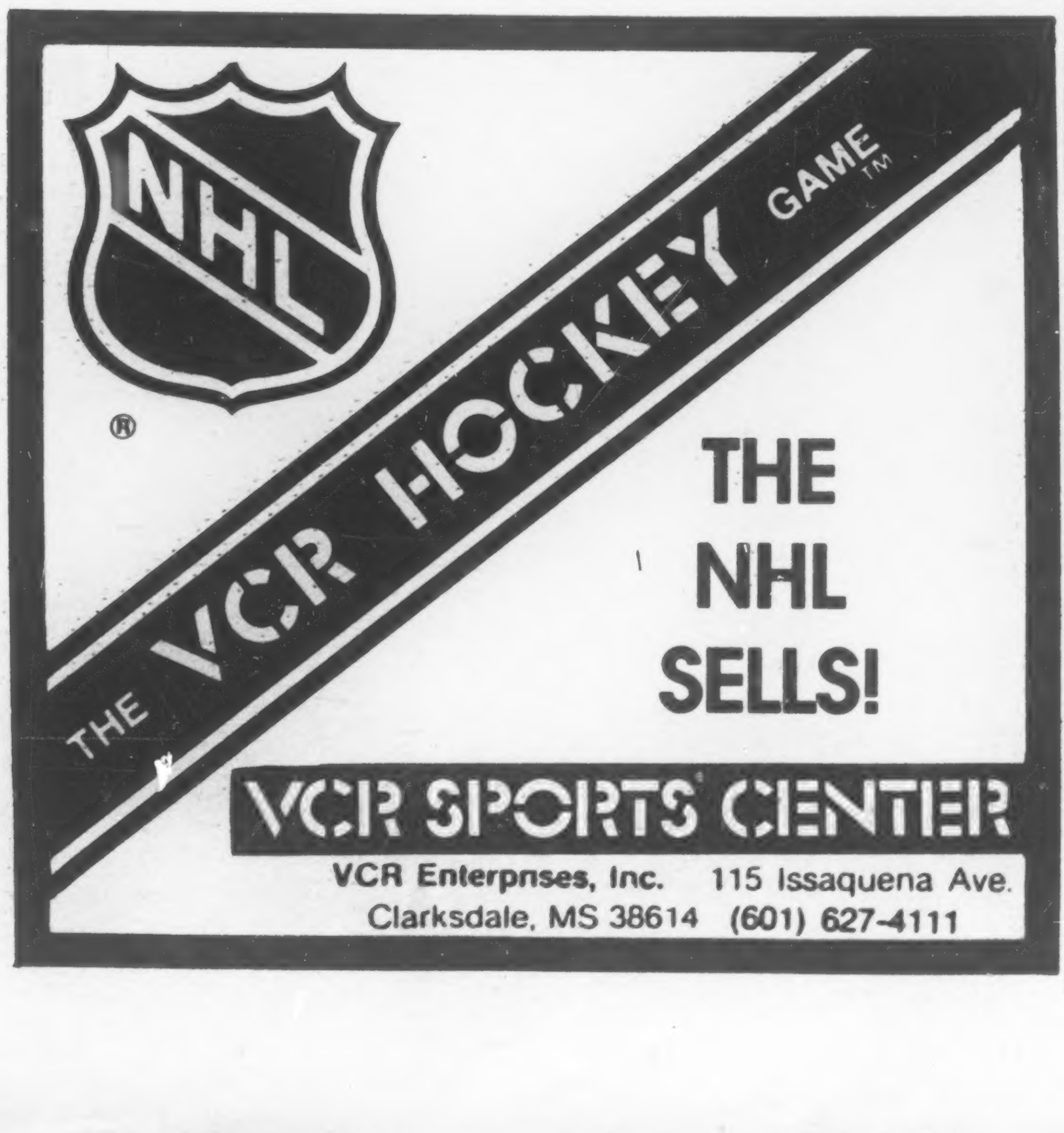

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Auto Parts Giant Gears Up To Test Car Care Centers

KANSAS CITY, Mo. — Western Auto Supply is now the second discount auto parts chain to test the hottest wrinkle in the automotive aftermarket, the car care mall.

Later this month, Western Auto will open its first store in a car care mall operated by Car Harbor in North Richland Hills, a suburb of Fort Worth, Tex.

Typically, the four-acre Car Harbor mall will house a state inspection station and specialty shops for: mufflers, tuneups, glass replacement, auto painting, transmission repair, car rentals, car stereos, quick lubes, Japanese car repair and performance parts. Atypically, it will include a discount auto parts store, a Western Auto unit of 8,800 square feet, including four service bays.

Checker/Schuck's/Kragen in Phoenix, Ariz., became the first discount auto parts chain to test the new concept last fall when it opened a store in a Tucson, Ariz., car care mall and opened another store in a second Tucson mall late

(Continued on page 62)

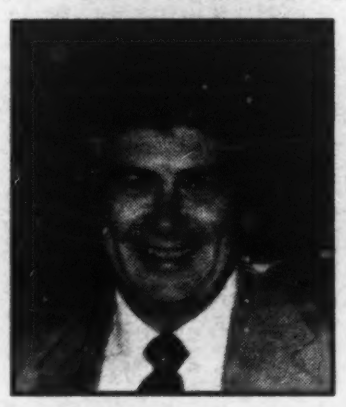
ALCO Designs New Formats To Combat Low-Price Rivals

By Mary Ellen Kelly

ABILENE, Kan. — Duckwall-ALCO is testing two new discount store formats, one of which includes groceries, to meet mounting competition in its 13-state Central U.S. market from everyday low price retailers.

The formats are designed to generate additional traffic and combat chains like Wal-Mart, said Robert Soelter, ALCO president and chief executive officer. Both prototypes debuted in late November.

A single COLA (an acronym for Cost of Living Adjustment) store was opened in Mineral Wells, Tex., 40 miles west of Dallas. The store employs an everyday low price merchandising strategy instead of the promotional tactic used in traditional ALCO discount department stores.


Robert Soelter

One advantage of the new COLA format is the name. If the chain decides to expand COLA to existing ALCO locations, new store signs would be unnecessary; a simple letter switch of ALCO to COLA is all that would be needed, a company source said.

The second format launched by the roughly 150-unit ALCO chain could be considered a type of mini-hypermarket hybrid. Operated under the ALCO

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Dinnerware Served First

Martha Stewart Makes Presence Felt at K mart

By Laura Liebeck

Martha Stewart
LIFESTYLE AND ENTERTAINING CONSULTANT
CORNING WARE
French White

Four-color posters of Martha Stewart welcome K mart customers into housewares, where her recipes, entertaining tips and books are now featured in 406 K mart stores. (DSN photo)

TROY, Mich. — Dinnerware is likely to be the first K mart product to bear the signature of Martha Stewart, K mart's new home fashions spokeswoman and consultant.

What the items will look like is still unclear, said Marilyn Gill, divisional merchandise manager for home fashions, because they are currently being developed. Product lines bearing Stewart's signature will likely be slightly upscale but compatible with K mart's price points and shopper demographics.

Gill told *DSN* that when the first Martha Stewart brand merchandise hits K mart's shelves later this year, it will be in the tabletop category, "probably dinnerware."

Stewart, who became K mart's entertainment and lifestyle spokeswoman and consultant in August, will have a direct impact on the look and merchandise selection in the Home Fashions Division. Such influence contrasts with that of K mart's fashion consultant, Jaclyn Smith, who does not have these responsibilities in apparel.

Currently, Stewart is "making suggestions" on product line additions and subtractions, Gill said, noting that her input is very specific. For example, Stewart has suggested

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DSN *Previews Housewares Show and Winter CES —page 29*

Zinn's Therapy for Troubled Chain

'New Attitude,' Updated POS Key Crazy Eddie Turnaround

By Josephine Fiamingo

EDISON, N.J. — "That's the past . . . we're moving forward . . . we have a new attitude and we're just focusing on making Crazy Eddie profitable."

That's the message being hammered home by Elias Zinn, the new president of Crazy Eddie, the 42-store East Coast consumer electronics chain. A visitor entering Zinn's office here at Crazy Eddie headquarters at any time—morning, noon or night—is likely to find him on the phone pitching that theme to vendors, stock analysts, employees and the press.

In an interview with *DSN* late last month, Zinn, who became president in November after a bitter proxy fight with chain founder Eddie Antar, outlined a number of

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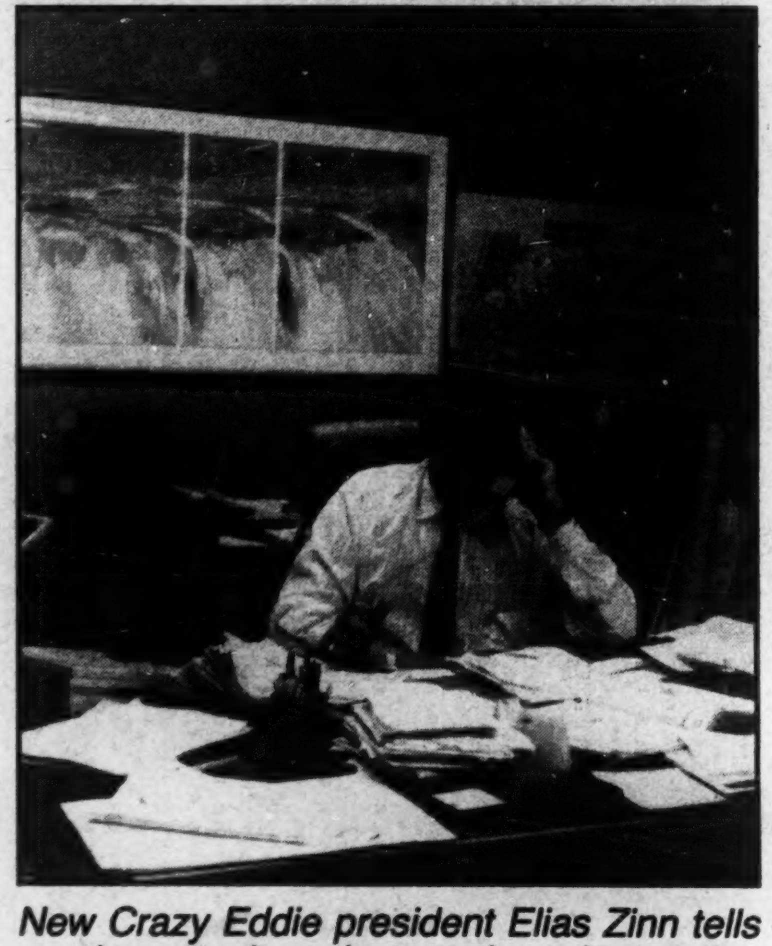

New Crazy Eddie president Elias Zinn tells vendors, stock analysts and employees that the foundering CE chain has a 'new attitude' and will regain its former luster. (DSN photo)

Senate Introduces Less Restrictive Polygraph Ban Legislation

By Deane Evans

WASHINGTON — New "compromise" legislation to restrict polygraph testing of retail store workers and other industry employees has surfaced in the Senate.

Like similar legislation approved last year in the House, the new Senate bill (S. 1904) would sharply limit the use of one of the discount industry's most effective weapons in the battle against internal theft.

The measure, introduced by Sens. Edward Kennedy, D-Mass., Orrin Hatch, R-Utah, and 10 other senators from both parties, would not totally outlaw the use of lie detector testing by discounters and other private employers.

Retailers would, for example, be permitted to use polygraph machines for testing workers when investigating "specific losses under limited circumstances and with employee safeguards in place." All other use of lie detectors by employers would be prohibited.

"Under this bill, no employer can use a polygraph for any pre-employment testing of job applicants or random testing of employees," Kennedy explained. "But employers could use the polygraph to investigate specific economic losses by testing employees who had access to the property under investigation and who they have reasonable suspicion to believe were involved in the incident."

Specifically, the exemption would apply to investigation of "theft, embezzlement, misappropriation, or an act of unlawful industrial espionage or sabotage." Among the employee "safeguards" included in the exemption are require-

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MARKETWATCH

Harmon Succeeds Ames' Founder Gilman

ROCKY HILL, Conn. —James A. Harmon, a longtime member of the board of directors of Ames Department Stores, has been named the company's new chairman, replacing retiring founder/chairman Herbert Gilman, according to published reports. Harmon, who operates the investment banking firm of Wertheim Schroder & Company, will evidently leave the day-to-day management of Ames to president/chief executive officer Peter Hollis. In the past, Harmon has been intimately involved in the financing of the company, and played an active management role at the Ames annual stockholders' meeting last spring.

Alexander's Sells Conn. Store Lease

NEW YORK— Alexander's has sold the lease of its Milford, Conn., store to Westfield Properties, owners of the mall where the discounter's single Connecticut unit is located. Alexander's will have an approximate $18 million pretax gain from the sale, which will leave the chain with 13 units in and around New York City. The store, which accounts for less than 4 percent of Alexander's $528.9 million in sales, will be closed around Aug. 1.

Ward Pays $50M Dividend to Mobil

CHICAGO — Heralding a return to a profitable operation, specialty retailer Montgomery Ward paid its first $50 million dividend to its parent Mobil Corp. Ward, which has restructured its stores into groupings of specialty units while dropping its catalog and discount store divisions, expects to annually pay $50 million in dividends to Mobil. Now that Ward is profitable, its parent may be inclined to retain the retailer, rather than spinning it off as planned when Ward was a struggling business.

Best Products Adopts Anti-Takeover Pill

RICHMOND, Va. — Best Products adopted a Shareholder Rights Plan to deter "coercive takeover tactics" and insure all shareholders receive the same price for their stock. The plan is similar to one adopted by about 500 other firms and isn't meant to stop a friendly takeover. The cataloger said it wasn't aware of any takeover move nor was the plan adopted in response to any such effort.

Present Co. Opens 3 New Showrooms

ROCHESTER, N.Y. — Cataloger Present Co. opened three stores late last year in Jamestown, Schenectady and Ithaca, N.Y., to reach a total of 21. The expansion came shortly after Present was acquired by Butler Capital Corp., a privately-held New York investment banking firm, for $23 million. PCI Holding, a Butler Capital affiliate, paid $10 a share for all of Present's outstanding stock.

Shopko Begins Construction on New Store

GREEN BAY, Wis. — Full-line discounter Shopko Stores will begin construction of its third La Crosse, Wis., area store in the spring of 1988. The projected 91,000-square-foot store is scheduled to open in the fall with about 250 full- and part-time employees. Shopko—a subsidiary of Super Valu Stores—currently operates 75 stores and anticipates opening 12 stores in 1988.

Clover Breaking Ground for 22nd Store

PHILADELPHIA — Clover plans to open its 22nd store in the late fall of 1988. The new site will be in Chester County, Pa. Ground breaking is to take place this month.

QVC Unveils Points-for-Merchandise

WEST CHESTER, Pa. — Teleshopper QVC this month mailed out application forms for company-sponsored MasterCard and Visa credit cards to over 500,000 customers. Consumers can use the cards to buy goods from any retailer, not just QVC, receiving bonus points which can be used for special teleshopper merchandise.

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Price Club Offers Additional Cards, Services to Longtime Biz Members

SAN DIEGO — The Price Club continues to augment its services to small businesses to differentiate the membership warehouse from competing, more consumer-oriented wholesale clubs.

The latest moves are:

- Offering businessmen who have been members for at least two years two additional individual membership cards at $25 each.
- Allowing qualifying professionals and contractors to obtain three cards, one primary $25 business card and two $10 individual cards.
- In Arizona, assigning a "tax control number" to business members licensed to resell goods to speed up processing of their purchases at the checkout counter.

The two additional individual cards offered to business members cost the same as Gold Star cards, which are the cards available to group members. The Price Club, in effect, has enlarged the group member classification to now include associates of business members who previously weren't able to get a card.

Trade observers believe that Price Club expanded its potential membership base to counter other wholesale clubs which have more liberal membership requirements and offer cards to a larger pool of members. Additionally, Costco, PACE, Price Savers and Buyers Club during the past few years have jumped into the Southern California markets, once Price Club's exclusive stomping ground.

Commenting on this view, a Price Club spokesman said that if a membership warehouse offers business cards to everyone, it isn't a wholesale club but an open-door store.

Price Club offered the additional cards to longtime business members, he added, "as another benefit and a way to thank these members." These businessmen can now get six cards, the two additional $25 individual cards plus the four cards that are available to all businesses when they sign up: the primary $25 business card, two individual cards, which still cost $10 each, and one $25 company card. The latter can be used by anyone from the firm, with payment only by a company check or draft to insure that the transaction is just for goods for the business.

The Price Club clarified its classification of licensed contractors and qualifying professions and now considers anyone in this category as a small businessman, eligible for business cards. The spokesman explained that many professionals are in group practices and the Price Club has previously viewed only the group practice as a business, eligible to obtain four cards, regardless of how many professionals were in that practice.

The professionals—attorneys, CPAs, doctors, dentists, architects, engineers, pharmacists, psychologists and psychiatrists—are in group practices for tax purposes, even though they are actually individual businesses, the spokesman added.

In Arizona, members who are retailers were assigned an eight-digit tax control number that identifies them as resellers. They use this number on the state-required resale card they fill out at the checkout, thereby avoiding the need to fill in separate, and much longer, city and state Transaction Privilege License numbers.

The Price Club's computer uses the tax control number to obtain a retailer's previously stored resale license information. The new system should speed up a merchant's purchase of goods for resale, the spokesman explained.

The new program doesn't change the legal requirement that only goods purchased for resale are exempt from taxes, with items a business member bought for business or personal use still subject to taxes, he added.

Apparel Sales to Be Flat in '88

Off-pricers Take Bigger Bite of Pie

By Kenneth M. Chanko

NEW YORK — Retail apparel sales in 1988 are expected to be flat, with only the lower end of the retail spectrum expected to show any real growth this year.

Apparel retailers will only be able to prosper this year if "value can be reinforced . . . by returning to the verities of competitive pricing, quality appearance, improved performance, fresh styling and timely service," according to the recent "Soft Goods Outlook for 1988" report by Kurt Salmon Associates.

The just-published report from the New York-based retail, manufacturing and textile management consultants, paints a somewhat bleak apparel retail picture for 1988. "Under the best of circumstances, present inventory buildups and slow replenishment will hamper business in the first half of [1988]."

Yet the report reveals that the first nine months of 1987 saw a shift in consumer dollar expenditures for apparel away from department and specialty stores and toward such operations as off-pricers, warehouse clubs, mail order outfits and factory outlets. And the report indicates that such a shift will continue through 1988.

As for apparel business at retail in general, the report reads in part, "The 'wealth effect' that supported four years of trading up is gone, along with the bull market that helped create it . . . Any real gains [in 1988] will have to come at the expense of competitors."

The report also says "retail sales of soft goods in current dollars should end 1987 6 percent ahead of 1986, with at least 4 percent due to higher prices . . . 1988 soft goods sales at retail will probably gain only 4 percent to 5 percent—for no real gain at all."

For the first nine months of last year, the retail segment the report called "other"—which includes off-pricers, warehouse clubs, factory outlets, flea markets and street vendors, among others—increased its percentage share of consumer dollar expenditures on apparel to 13.7 percent from 11.3 percent in 1986.

(Continued on page 27)

Mars Closes Upscale Discount Store

NORTH DIGHTON, Mass. — Mars Stores, operators of 20 Mars and two Gaynes Discount Department Stores, closed its Gaynes store in Fishkill, N.Y., on Dec. 31. The other Gaynes in South Burlington, Vt., will remain open, said sources.

Mars describes Gaynes as an upscale discount store. The Vermont unit was acquired in February 1985; the Fishkill store opened in November of that year.

The lease on the Fishkill store, which is owned by the J.W. Mays Co., Brooklyn, N.Y., and is located in a shopping mall, expired on the last day of the year, according to store personnel and a spokeswoman for Dutchess Mall.

Local radio commercials announced the store closing in early December. The spots said Gaynes had lost its lease and all store merchandise was marked down 25 percent.

The Gaynes division had been a drag on the company's profits all last year. In a third quarter report dated Sept. 15, 1987, Mars president Paul Kwasnick reported that sales at the Gaynes division were a "disappointing 9.5 percent below last year" and the stores "accounted for more than half of the company's operating loss for the second quarter."

HSN Replaces Sky Merchant Program

CLEARWATER, Fla. — The Home Shopping Network has replaced Sky Merchant as the teleshopping show on the 1.5 million-subscriber Jones Intercable cable system.

Jones had produced Sky Merchant as the exclusive video retailing program on its network. HSN 1 goes to about 1 million Jones subscribers, while HSN 2 goes to another 500,000 Jones cable households who are in markets where HSN has broadcast TV stations.

Discounters Offer More Perks to All Levels of Management

Executive Benefits Sample

Percent of Chains that Offer Benefit

	Managerial Level									
	CEO		Top Merchandise Manager		Gen'l Merchandise Manager		Buyer		Store Manager	
Benefit	'86	'85	'86	'85	'86	'85	'86	'85	'86	'85
Paid Family Medical Coverage	74%	70%	69%	53%	60%	53%	53%	47%	33%	38%
Paid Dental	58	33	47	17	44	16	40	12	46	11
Prescriptions	55	55	69	35	67	35	68	30	77	33
Optical Plan	33	20	30	12	28	12	21	12	25	9
Interest-Free Loans	18	10	12	5	9	2	12	2	12	2
Stock Purchase Plans	25	33	29	18	27	16	31	12	31	20
Deferred Pay	53	18	46	18	41	6	27	4	24	4
Merchandise Discounts	88	70	85	73	83	70	88	79	86	68
Scholarships Grants, Dependents	31	5	29	9	31	6	31	0	31	5
Pension Plan	70	51	81	51	81	51	77	51	72	51

Source: 1987 Mass Retailers' Executive Perquisite Report, International Mass Retail Association

NEW YORK — Substantially more discount executives—down to the store level—are enjoying pension plans, health-related benefits such as dental and optical insurance, and family-related perks such as scholarships and grants for their children than they did two years ago.

That's the conclusion drawn from the "1987 Mass Retailers' Executive Perquisite Report" of the International Mass Retail Association.

In its survey, conducted every two years, of personnel policies of member retailers, IMRA asked which of 52 different benefits they offer to 13 levels of management, ranging from chief executive officers to assistant store managers. Of the IMRA members surveyed, 84 percent responded. All replies were treated confidentially and survey responses were anonymous.

IMRA, whose membership directory shows 181 retail members, is comprised of the former NMRI, which merged at the end of 1986 with the Association of General Merchandise Chains. At the time the merger was approved in October 1986, the NMRI counted 118 members, while the AGMC tallied 40 members.

Accordingly, the results reflected in the 1987 perquisites survey probably include responses from former AGMC members, which wouldn't have been queried for the 1985 survey of the old NMRI.

Among the trends uncovered, the IMRA 1987 survey found that the percentage of its members offering pension plans has increased. For example, 81 percent offer pension plans to general merchandise managers compared to 51 percent in the 1985 survey. For chief executive officers, 70 percent now offer pensions, up from 51 percent two years ago. On the store level, 72 percent offer them to managers, an increase from 51 percent.

In the health benefit category, an increased number of chains offer medical benefits of all kinds, not only in traditional hospitalization plans but also in the area of dental, optical and prescription drug plans and physical exams for all levels of management.

Another perquisite category to show growth over the past two years is family benefits, such as scholarships and education grants for children of executives, merchandise discounts, tuition reimbursement, and legal, tax and financial counseling.

The accompanying chart illustrates a sampling of 10 benefits that have experienced the greatest growth in the number of companies that offer them on six representative managerial levels from ceo to gmm to store manager.

On the downside, many companies have dropped Employee Stock Ownership Plans. Only 13 percent of those surveyed offer them, compared to 31 percent in the 1985 survey. (The 1986 Tax Act took away the deduction for company contributions, which prompted both K mart and Target parent Dayton Hudson Corp. to drop them.)

As an offset, more companies are offering stock options, down to the assistant manager level. Of the companies surveyed, 33 percent offer stock options to store managers, for example, up from 9 percent two years ago.

In addition, more firms now offer profit sharing down to the store level—48 percent for assistant store managers, more than double the 22 percent of two years ago.

Deferred compensation also is growing in popularity, even down to store level. The survey found that almost a quarter of companies offer it to their store managers, compared to 4 percent in 1985.

The 1987 survey found that 32 percent offer post-retirement benefits, up from 18 percent in 1985. These range from lifetime merchandise discounts and health benefits coverage to free travel to place of retirement.

More companies are sweetening their vacation policies, the survey found, with many offering four and five weeks of paid time off and requiring fewer years of employment to qualify.

Of total respondents, 82 percent offer four weeks and 33 percent offer five weeks. The survey failed to provide comparative percentages from 1985, but IMRA president Richard Hersh said in his introduction to the report that the totals are up from two years ago and employees need to work fewer years to qualify for the maximum.

For four weeks vacation, the most common qualifying period of employment is 15 years, at 30 percent of the companies, compared to 23 percent of those surveyed in 1985. One-fourth of the companies now require their employees to work only 10 years before getting four weeks, compared to 18 percent.

To get five weeks off, managers at 30 percent of the companies must work 20 years, up from 10 percent, while 21 percent of the firms require 25 years, up from 10 percent, and 18 percent require only 15 years, up from 4 percent.

An increasing number of companies offer six weeks off, 18 percent, compared to 14 percent in 1985. The qualifying period varies.

For managers who use personal cars on company business, the reimbursement rate averages 22.41 cents per mile.

Providing a company car for personal use is on the upswing. For chief executive officers, 86 percent provide this perk, compared to 72 percent in 1985. At the merchandising level, 40 percent of companies offer them to general merchandise managers, compared to 17 percent in 1985.

For travel expenses, 16 percent said they set no limits. For 34 percent, the expenses must be "reasonable" for the city visited. For the remaining 50 percent, meal expense reimbursements averaged: breakfast, $9.35; lunch, $13.46; and dinner, $33.05.

The copyrighted survey, the sixth one conducted, is available to members for $38 and to non-members for $48. Write: IMRA, 570 Seventh Ave., New York, N.Y. 10018, or call (212) 354-6600.

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Discount Store News 10-12-87 *

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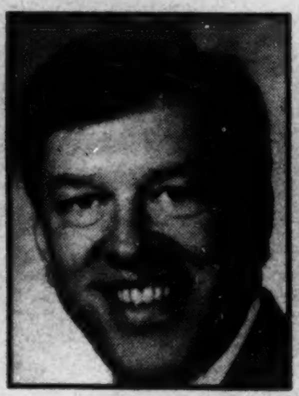
* Leo J. Shapiro & Associates, Inc., Top Brands Study 1987.

Dahlkemper's Promotes Five, Creates New VP Positions

J.B. Dahlkemper

E.H. Dahlkemper

Bergdahl

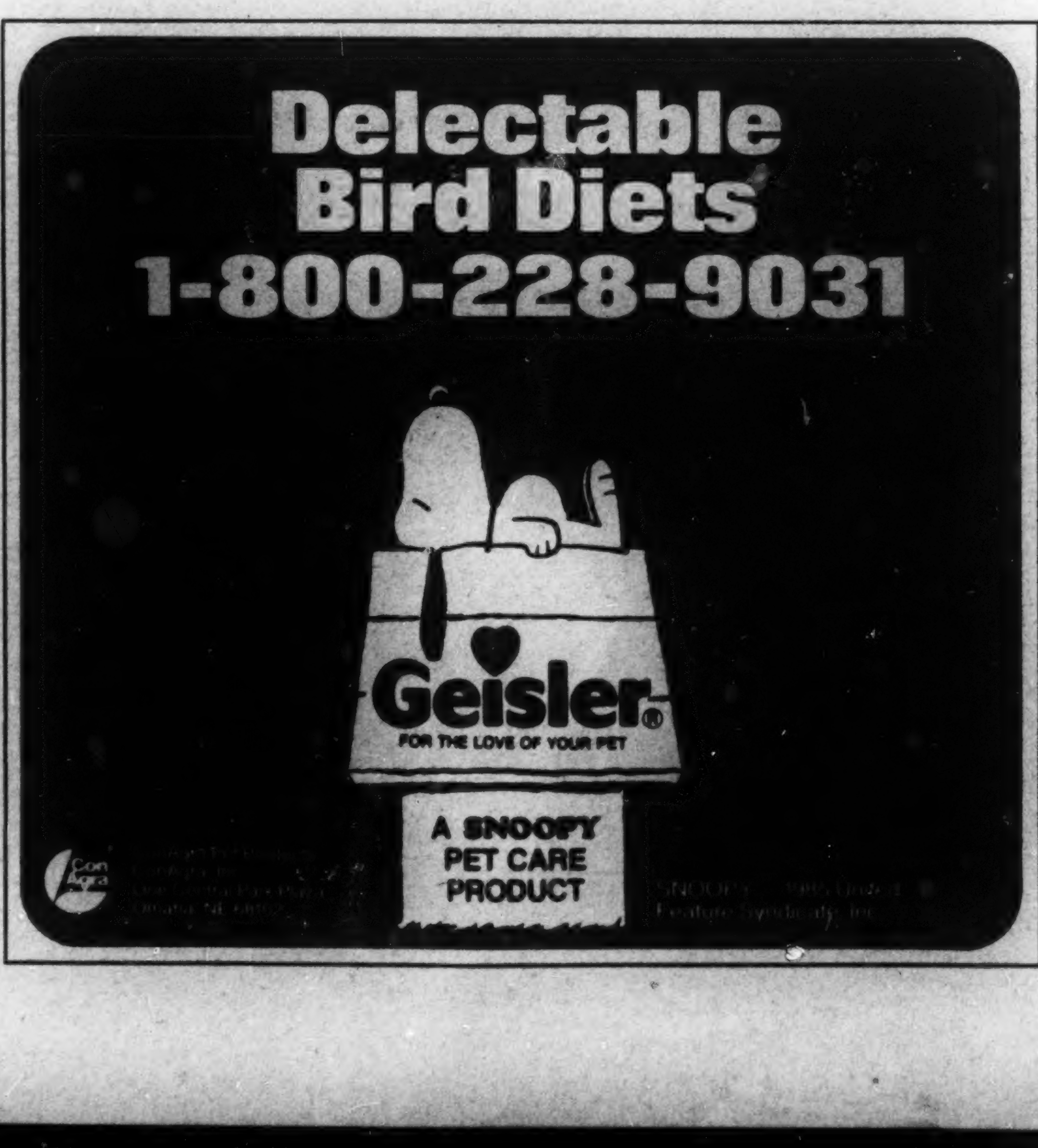

O'Keefe

Razanauskas

ERIE, Pa. — Dahlkemper's has promoted five executives and separated the top merchandising position into vice presidencies for jewelry and non-jewelry goods as part of the cataloger's three-year strategic growth plan.

Founder and president Joseph B. Dahlkemper has become board chairman and chief executive officer. He will continue to advise the company on strategic planning, acquisitions, expansion, finance and appointment of officers, along with spending time in the chain's nine showrooms.

Executive vice president Edward H. Dahlkemper has been named president and chief operating officer. Thomas A. Bergdahl, formerly director of jewelry merchandising, was promoted to vp of jewelry merchandising, while David R. O'Keefe was named vp of merchandising, responsible for all non-jewelry marketing. Mary Ellen Razanauskas was promoted to vp of human resources from director of human resources.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Off-Pricers, Warehouse Clubs Take Bigger Bite of Apparel Pie

(Continued from page 2)

Chains, such as Sears and J.C. Penney, and the full-line discounters saw their share drop by less than 1 percent to 40 percent, and department and specialty stores' share of consumer expenditures dropped by 1.7 percent to 46.3 percent.

Men's wear, with a 3 percent increase in the "other" segment, recorded the biggest jump, more than women's and children's wear.

For apparel in 1988, Kurt Salmon predicts that the change in unit consumption at retail will range from a 1 percent drop to a 1 percent gain, depending on holiday results.

If there is no gain in December apparel sales over last year, despite heavy promotions, bulging year-end inventories will spur deeper markdowns this month, further dampening spring orders, and will eventually lead to a 1 percent drop in total apparel unit consumption in 1988.

If, however, December apparel sales are spurred by the many promotions, leaner inventories will lead to normal buying for the year and should prompt a 1 percent unit consumption increase.

The report says, "1988 offers flat or slow growth to retailers. Once inventories are clean, more value-oriented planning can turn next year into a plus and recover lost profits."

The report also notes that "for the first time in decades, inflation in soft goods has led inflation in the general economy." The report cited higher priced imports, aggravated by a weakening dollar, and higher materials costs as reasons for higher prices.

Due to various factors, the report says that "import growth should decline to around 5 percent in units [in 1988], while their value increases 12 percent in dollars."

A continuing shift to more domestic sourcing is expected this year among most retailers, the report predicts.

Apparel price increases should moderate this year because of more competition among fabric suppliers and "a very nervous apparel market," according to the report.

A manufacturer survey conducted by KSA and included in the report revealed that manufacturers, by a 2-1 majority, expect a stronger casual styling to be apparent this year. The challenge will be to keep such categories as fleece activewear and fashion jeans—most particularly acid-wash—fresh-looking.

Active sportswear, according to the report, should be the biggest apparel growth category for a fourth straight year, but there will be a shift away from oversized loose styling—which the report said is "on its way out"—and toward closer-fitting stretch looks, like the bike pant.

The report also added that darker shades of denim will replace lighter shades, short skirts (particularly in denim) for the younger woman will continue to spread beyond the country's "major fashion centers," and dresses, featuring softer and curvier shapes, and more exotic sleepwear and daywear will be healthy categories this year.

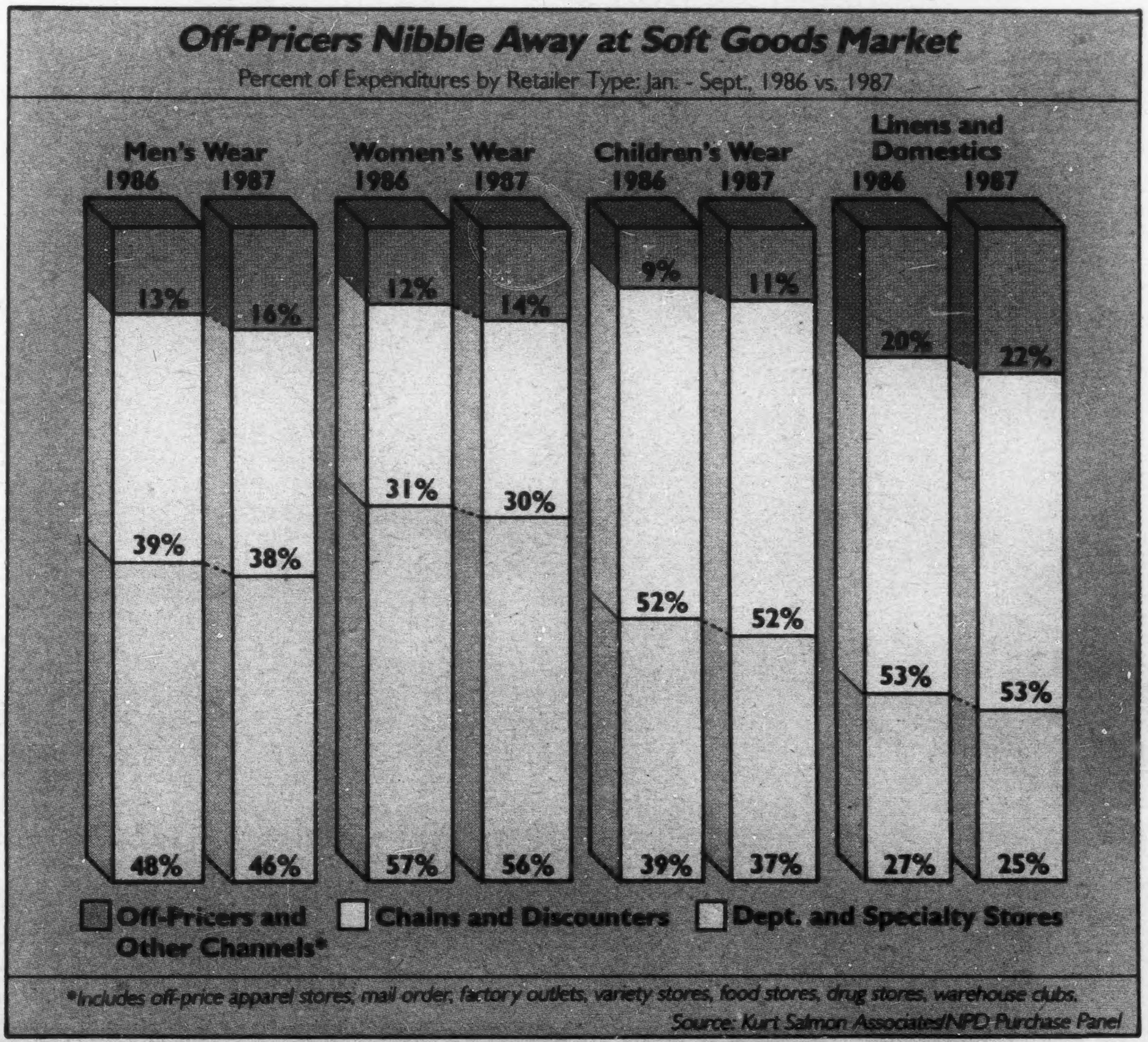
Sweaters, for either men or women, don't fare well in the report, but accessories, since "they offer an inexpensive way to vary outfits without buying a new one," should have another good year in 1988.

The KSA report calls for a 4 percent unit consumption gain in hosiery, citing the category's inherent low cost nature and the current new fashions emphasizing legs. Pantyhose—more than double other sheer hosiery—is expected to decline by 1 percent in units, but the loss will be more than offset, according to the report, by gains in knee-highs and thigh-length hose.

The report says, "More colors, both bold and subdued patterns, and special end-uses for socks, should help these categories maintain their momentum."

The report also adds that hosiery imports have tripled in the last three years and notes that imports now are 5 percent of the market.

In its footwear section, the report noted that low-price retail channels such as discounters and one-price shoe stores continue to grow, and that this low-price segment now accounts for almost one out of every three pairs sold.



Off-Pricers Nibble Away at Soft Goods Market

Percent of Expenditures by Retailer Type: Jan. - Sept., 1986 vs. 1987

*Includes off-price apparel stores, mail order, factory outlets, variety stores, food stores, drug stores, warehouse clubs.

Source: Kurt Salmon Associates/NPD Purchase Panel

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Western Goes to the Mall; Gears Up to Test Car Care Centers

(Continued from page 1)

last month. "We're trying to get some background in that concept," said Dave Bunch, a real estate specialist for the chain of more than 500 stores.

"It's too soon to tell" how the test is going, he said.

Dallas-based Car Harbor, owned by the same Thompson brothers who just took Southland Corp. private in a $4.7 billion leveraged buyout, is just one of several national and regional chains throwing up car car malls by the dozens around the country.

Indicating the explosive growth of the car care mall industry, Car Harbor plans to build 10 to 12 this year in six different cities that may include Kansas City, St. Louis, Nashville, Tenn., and Phoenix—or any city toward the East Coast with a population of at least a million, said president D.H. Burden. Car Harbor is gearing up for as many as 20 more a year, he added.

Another car care mall operator, Lockwood Commercial Properties, based in St. Louis, expects to have as many as 20 malls either in operation or under construction by the end of 1988, including five in a new market, Indianapolis. It already operates several in St. Louis and several more in Kansas City.

Perhaps 100 car care malls are operating now, Burden estimated, with perhaps 100 more slated for 1988. About 200 car care malls are under development, estimated Ken Stolecki, assistant director of real estate for Western Auto.

"They're a real trend."

Another sign of success: Mall operators are forming a trade group to be called Council of Car Care Centers, said Chuck Laverty, publisher of *Automotive Week* newsletter.

Burden is bemused that he has failed to land any Chief Auto Parts stores, which the Thompson family also owns through their Southland holdings. The Thompsons are negotiating to sell Chief Auto, along with other assets such as dairies and 1,000 of their 7-Eleven convenience stores in order to pay their $4.7 billion LBO debt.

"Maybe I'll have better luck when they spin off Chief," Burden said.

Although Burden wants an auto parts store for each mall, Western Auto was the first parts chain to sign up, he said. It is taking a "let's see" position on additional malls, he said.

Going into the Car Harbor mall was just a happenstance, said Stolecki of Western Auto. "We were going to go into that market and we'd be there, whether it was in a fashion center or a car care mall," he said. "It's somewhat of a test."

Western Auto got in early enough to design its own store, Stolecki said. The unit will be 8,800 square feet, he said, or smaller than other company-owned stores that range from 10,000 square feet to 15,000 square feet.

In merchandising, the Car Harbor store will feature Western Auto's new national brand tire program, said Bob Suter, merchandise manager for parts, tires and batteries.

Last June, Western Auto began a program to expand its tire offerings beyond private label to about 5,000 sku's of branded tires. They include in-store stocks of Michelin, Pirelli and B. F. Goodrich.

Western Auto customers can also order numerous other brands, such as Denman truck tires and Gislevlid, a Swedish make, from its Tire America subsidiary, Suter said.

Western Auto has converted about half of its 275 U.S. stores to its national brand tire program and will complete the chainwide conversion by this June, Suter said.

Some Western Auto associate stores also have switched to the national brand program and can order special brands.

Besides the Tire America chain acquisition in January 1987, Western Auto made another major move into tires last October by acquiring the 52 stores of the NTW chain for $35 million.

Western Auto is gearing its tire pricing to discount store customers, rather than to wholesale club members, Suter said. "We're not going to be the lowest or the highest price."

But where warehouse clubs are cutting into the tire market, Western Auto will adjust prices, Suter said.

Including the Car Harbor store, Western Auto plans to open 50 new stores in 1988.

Senate Introduces Less Restrictive Polygraph Ban Legislation

(Continued from page 1)

ments that the worker under suspicion:

- Be provided with reasonable notice of the date, time and location of the test;
- Be warned against self-incrimination;
- Be allowed to review the questions before the test;
- Be allowed to terminate the test at any time.

In addition, the polygraph operator would be prohibited from asking questions related to the worker's religious or political beliefs, sexual behavior or labor union affiliation.

In a departure from the House polygraph bill, the Senate proposal contains no exemption to permit routine lie detector testing of retail prescription drug department employees.

Said Sen. Howard Metzenbaum, D-Ohio, another cosponsor of the new bill: "It is important to note that this bill treats all employers equally. It is unfair to give a few private special interests exemptions from the limitations on the use of polygraphs—it is unfair to the workers in those selected industries and it is unfair to other employers who do not get special treatment."

According to the provisions of the proposed Senate bill, employers who violate the ban would be subject to civil penalties, including fines of up to $10,000, restraining orders and liability to the employee affected by the violation.

Retailers suspect that even with the exemption for ongoing investigations, the ban on lie detector tests would reverse recent gains in combatting shrinkage.

Opponents of a ban on polygraph testing can expect support from the Reagan administration in their efforts to block passage of the proposed Senate measure. Reagan Justice Department officials have consistently argued against federal limitations on lie detector use by employers.

In an address earlier this year, Assistant Attorney General Richard K. Willard, citing polygraph statutes in 34 states and the District of Columbia, said the administration "sees no need for federal legislation."

"To preempt the states . . . where there is no evidence of an overriding need for national policy uniformity, would do violence to an important underlying principle of our union—the belief in the ability and responsibility of the states generally to govern the affairs of their citizens," Willard said.

Another administration concern about proposed federal legislation is the fact that both the House and Senate bills would deny employees the opportunity to voluntarily submit to polygraph exams to prove their innocence.

Sarah Coventry
AMERICA'S Fashion Jewelry
Sarah Coventry
Sarah Coventry
In the Big stores.

Stewart Makes Her Presence Felt at K mart

(Continued from page 1)

an expansion of K mart's existing line of spatulas to appeal to serious cooks looking for more professional products.

The dinnerware set now being developed includes Stewart's "thinking" on the shape of the cup in the set.

The opportunity for product development is infinite, Gill said, noting that K mart will develop products and merchandise lines "where we see opportunity and where it's right, we'll do it. We're keeping a totally open mind."

So far, the implementation of the Martha Stewart program hardly looks different from what preceeded it. The changes amount to little more than the addition of Martha Stewart signs in the housewares department.

At one suburban Atlanta K mart, the store featured:

- A large four-color poster of Stewart hung on a pillar in the housewares department;
- Four-color posters of food and table arrangements wrapped around four metal atrium towers and on six endcaps;
- Eight "Kitchen Korners" pamphlet holders scattered throughout the housewares department;
- A bookstand with Stewart's five cook/entertaining books.

The old atrium grid design with the large Kitchen Korner sign was removed when the new Stewart program arrived at the stores. Everything else remained the same.

The signs and merchandise stocked on the endcaps will be altered to coincide with the season or theme at hand, Gill noted, as will the recipes and entertaining tips in "Kitchen Korners," a pamphlet written by Stewart.

For example, the introduction of the Martha Stewart program featured holiday themes and foods and a short biography of Stewart and her new assignment for K mart. The January/February "Kitchen Korners" features special recipes made with Pyrex bakeware.

The first round of the Martha Stewart program—signs and "Kitchen Korners" pamphlets plus television advertising—was rolled out into 406 stores in 11 markets in November—Chicago, Detroit, Philadelphia, Indianapolis, Minneapolis/St. Paul, Atlanta, Dallas/Fort Worth, Tex., Denver, Kansas City, Tampa/St. Petersburg, Fla., and Seattle/Tacoma, Wash. The balance of the stores will have the program by the end of next month, Gill said.

The only part of the Stewart program that appears nationally are the print ads, which were placed in a number of consumer magazines and K mart circulars.

ALCO Designs Two New Formats

(Continued from page 1)

name, the 14 stores currently in operation incorporate a food department into the traditional merchandise assortment. Soelter said the blending of food into the mix was done to test the traffic potential of grocery items.

Single checkouts accepting both food and general merchandise have been equipped with UPC scanning equipment. The rest of the ALCO chain does not yet have scanning capability. At the 14 locations, food occupies between 10 percent and 12 percent of floor space, Soelter said.

ALCO operates stores in a trading area that extends north to South Dakota, south to Texas, west to Wyoming and east to Illinois. With the exception of Wyoming and South Dakota, Wal-Mart has invaded all other states where ALCO does business. K mart is in all ALCO markets. Target, Venture, Pamida and Gibson's Discount Centers, based in Dodge City, Kan., compete with ALCO in many markets as well.

Duckwall-ALCO went private Sept. 30, 1985, when its sales were about $350 million. At that time, the company also operated 33 Duckwall variety stores compared to 22 presently. Eariler in 1985, the last member of the founding family, A.L. Duckwall Jr., retired from the company.

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Wal-Mart Launches Hypermart USA

1st Hypermarket Places Discounter on Leading Edge of Retailing in U.S.

BENTONVILLE, Ark. — Wal-Mart's move into hypermarket merchandising has keyed a major expansion of the discounter's marketing that could rapidly boost the company's sales over the next few years.

The $16 billion discounter has started to merchandise food for the first time to support the launch of at least two company-owned and operated Hypermart USAs as well as modified hypermarkets called Wal-Mart Supercenters.

Wal-Mart's thrust into hypermarkets is part of the discounter's goal of being on the leading edge of retailing. This same drive was responsible for Wal-Mart's launching Sam's Wholesale Club and successfully growing it into

(Continued on page 4)

HYPERMART USA

Wal-Mart chairman Sam Walton (inset) and other company execs faced reporters, security analysts and throngs of shoppers at the Dec. 28 opening of mammoth Hypermart USA. (DSN photo)

New Retailing Venture Expected to Generate $100M in Annual Sales

By Arthur Markowitz

GARLAND, Texas — Wal-Mart launched Hypermart USA here late last month as the first "American-type" hypermarket, a 220,000-square-foot store expected to reach $100 million in sales.

The Dec. 28 opening of the first of at least four Hypermart USAs has major implications for retailing in general and for the powerhouse discounter itself as it strives to become the nation's highest volume merchant. (See exclusive *DSN* photos, pp. 12-14.)

Hypermart USA is a partnership between Wal-Mart and Cullum Cos., a Dallas supermarket company that is the parent of the Tom Thumb chain. Each contributed $15 million to launch the venture

(Continued on page 11)

Traffic Builders Survey:

Promos Draw More But Fewer Buy

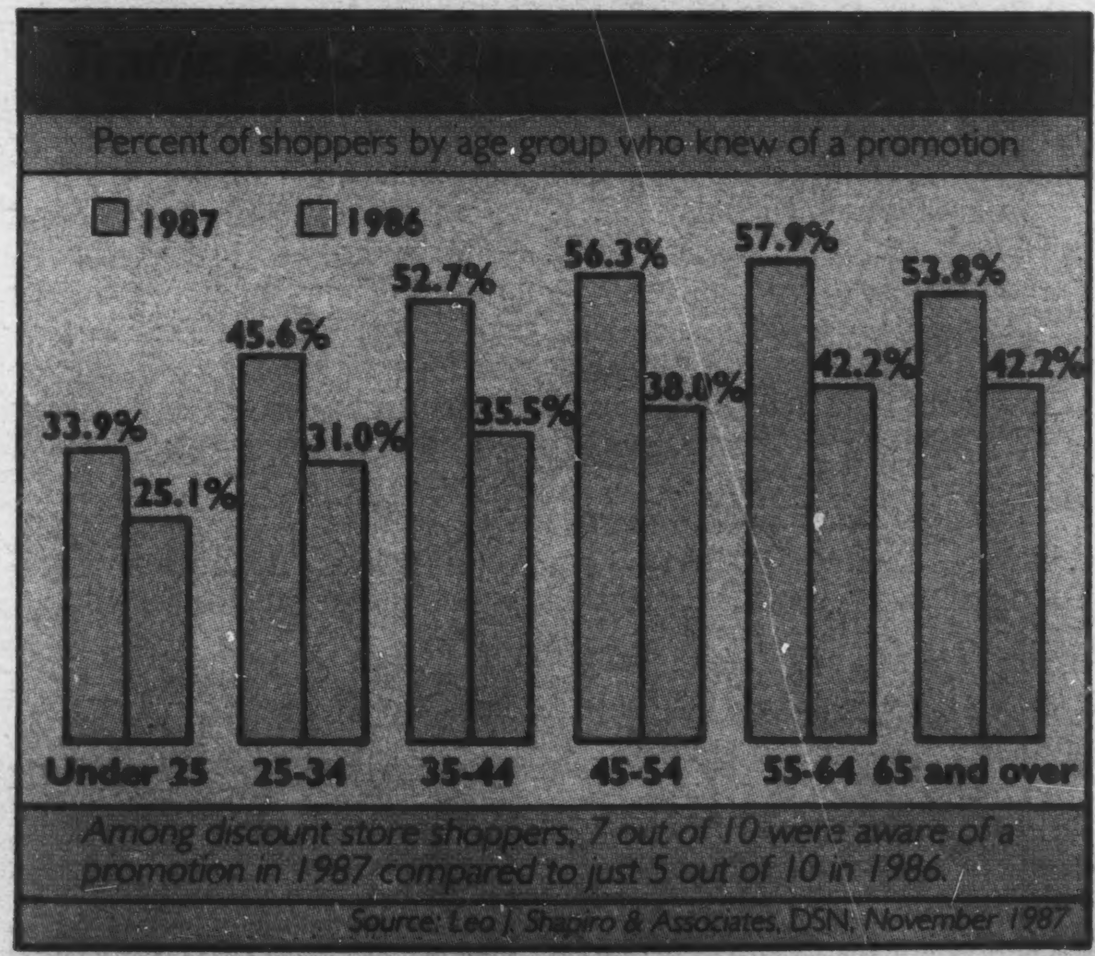
Nationwide DSN Report

Consumers of all ages were considerably more interested in what was on sale and for how much before going shopping last year than they were the year before, according to research compiled in October 1987 for *DSN's* second annual Traffic Builders Survey.

But, while discount stores, in particular, improved their ability to attract consumers with sales and promotions last year, they were less efficient at extracting additional dollars from shoppers' wallets. The exclusive *DSN* report appears to indicate that the sharp rise in promotional shopping, coupled with a decline in the mean dollars spent by those shoppers, may have contributed to flat or decreased profits experienced by many discounters.

Nevertheless, discount department stores continued to outdistance other types of retailers in their ability to attract customers with traffic-building promotions. More than 70 percent of discount store shoppers said they knew of a sale or promotion before going to the store, up from 49 percent the year before. By comparison, some 37 percent of shoppers at mass merchants like Sears and Penney said they were aware of a sale or promotion before shopping those stores, about 28 percent of shoppers at full-price department stores, about 33 percent at catalog showrooms and 32 percent at specialty stores.

The study, which is analyzed on pages 21 to 61, identified discounters' top traffic building products of 1987: household cleaners, household paper products, candy, plastic kitchen items and women's lingerie/sleepwear.



Among discount store shoppers, 7 out of 10 were aware of a promotion in 1987 compared to just 5 out of 10 in 1986.

Source: Leo J. Shapiro & Associates, DSN, November 1987

Chains Face '88 Gingerly After Modest Dec. Sales

By Kenneth M. Chanko
Nationwide DSN Report

Most discounters and off-pricers across the nation fared slightly better over the holiday period than their department and specialty store brethren, but sales increases were nonetheless modest.

On average, discounters posted 4 percent to 6 percent comparable store sales gains in December compared to a year ago. Many retailers said results were in line with somewhat lowered expectations. They also said that between buying cutbacks going into the holiday period and some markdowns during the last two weeks of the year, inventories are even or slightly lower than last year at this

(Continued on page 81)

24-Hour Toll-Free Number Gives Zayre Edge in Hiring

FRAMINGHAM, Mass. — Zayre has developed around-the-clock recruitment for all job levels.

By early February, the chain will have a toll-free telephone number that perspective employees can dial 24 hours a day, seven days a week, to apply for a position with Zayre over the phone and, if warranted, to schedule an interview appointment.

The recruitment approach is a cost-effective way to beat competitors—including other discounters, fast food restaurants and other retailers—to potential minimum wage level employees, by encouraging faster application decisions.

At the same time, information exchanged over the phone can screen out unsuitable job candidates and provide store

(Continued on page 82)

Second Annual **DSN** *Traffic Builders Survey*

Lingerie Leads Style Promos

Hair Care Is Top Draw

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MARKETWATCH

Wysocki Out in Zayre Reorganization

FRAMINGHAM, Mass. — Zayre Corp. reorganized its discount store division, eliminating the post of executive vice president, general merchandise manager, triggering the resignation of Raymond Wysocki. Two merchandising vps were promoted to newly created positions: Jack Kegal was named senior vp, gmm, hard lines; Steve Jelin has been named sr. vp, gmm, overseeing mens', boys', shoes, infants and intimate apparel. Lynn Baker will continue to oversee all other apparel merchandise. Peter Weil, formerly a hard lines senior merchandise manager, was named sr. vp, merchandising, planning, distribution and control. They will report to Stanley Adler, Zayre Stores president. Craig Kurlander, formerly a vp, zone manager, was named sr. vp, store operations reporting to Bob Alger, newly named senior executive vp, operations and distribution services. Alger was exec. vp, sales, operations.

Harts Breaks Ground with Prototype

COLUMBUS, Ohio — Harts broke ground here last month for its first built-to-suit new prototype store in the Mill Run convenience center, a 350-acre, mixed-use site the discounter will share with a Big Bear grocery store. Big Bear is the parent of the 30-unit discounter. Located northwest of the city, the unit will follow the format unveiled last year in a retrofitted Harts store in Cincinnati.

Price Club Plans 4 New Units

SAN DIEGO — The Price Company, operator of 37 Price Clubs in the United States and joint operator with Steinberg Inc., of two Price Club Canada units in Montreal, plans to open four new clubs by this summer. Two will open in the West, in Glendale, Ariz., and Corona, Calif. On the East Coast, Price will open a warehouse club in White Marsh, Md., in East Baltimore, this spring and one in Hampton, Va., this summer. In the 16-week first quarter of 1988, ended Dec. 20, 1987, Price reported sales were up 24.3 percent to $1.28 billion. Net income after taxes climbed 35.6 percent to $30.87 million. Comparable warehouse sales rose 2.17 percent.

Costco Reports 1st Qtr. Sales Increase

SEATTLE — Costco Wholesale reported sales rose 77 percent to $407.5 million during first quarter 1988, ended Nov. 22, 1987. Comparable warehouse sales rose 21 percent. Net income totaled $2.49 million, compared to a net loss of $373,000 during last year's first quarter. That figure includes three unusual items: a $1.4 million pretax capital loss related to the sale of marketable securities; a $1.7 million pretax gain related to the repurchase at a discount of the $6.5 million principal amount of its convertible subordinated debentures; and a $771,000 benefit from the utilization of a tax loss carryforward. Excluding extraordinary items, Costco's first quarter net was $557,000.

Fisher's Big Wheel Receives Award

NEW CASTLE, Pa. — Fisher's Big Wheel received the Honeywell Gold Nugget National Energy Conservation Award for its 10-year-old energy conservation program. Despite increased store hours, annual average kilowatt-hours used by the discounter has been reduced by one-third since 1976. Energy management systems were installed during 1978.

California Boosts Minimum Wage

SAN FRANCISCO — A state-appointed commission recently voted to increase California's minimum wage from $3.35 an hour to $4.25. Scheduled to take affect July 1, the 27 percent increase represents a compromise reached by the Industrial Welfare Commission after several months of hearings and lobbying efforts by community, labor and business organizations.

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Chief Auto Management Purchases 470-Store Chain from Southland

DALLAS — As expected, the management of Chief Auto Parts has agreed to buy the 470-store chain from its parent, Southland Corp., owner of 7-Eleven stores.

The management group, including division manager Michael Manor and marketing director Kent Stickley, agreed to pay $130 million in cash, as well as to assume unspecified liabilities.

A co-investor is the investment firm of Shearson Lehman Brothers. Its ownership percentage is "a moving target," said Shearson vice president Laurie Koffman. The final percentage depends on whether Shearson and the management group have to offer warrants, or rights to purchase stocks, in order to swing private financing, she said.

To float $4 billion worth of public junk bonds to finance its LBO, Southland had to sweeten the terms by offering warrants, in addition to paying interest averaging 17.5 percent.

In contrast to the public sector financing of Southland's LBO, the financing for the Chief Auto LBO will all come from private sources, Koffman said, rather than from publicly sold junk bonds.

Manor's group and Southland signed the pact Dec. 24, 1987. The industry speculates a closing date of March 31.

Southland director of investor relations Cecilia Norwood, said the closing date hinges on ironing out other, unspecified, details of the transaction.

Manor indicated that his group plans to continue operating out of Dallas "pretty much as before," adding "we will continue moving forward with aggressive expansion" with "a bit of restructuring."

The number of new stores planned to be opened in 1988 has not yet been determined, Manor said. The expansion program will include the 14 stores in various stages that were put on hold during the Southland LBO process. "We will move forward with the 14," Manor said, as well as an undetermined number of additional stores.

The leveraged buyout of Chief amounts to an LBO within an LBO. The Thompson family, founders of the 7-Eleven chain, finally succeeded last month in taking Southland private in a $4.7 billion deal. But its interest cost averaging 17.5 percent to finance the LBO was about four percentage points more than it expected to pay when it announced buyout plans last July. Following Black Monday, Oct. 19, it had to sweeten the deal with warrants to attract junk bond buyers.

The sale of Chief, with units based largely in Texas and California, and other assets will help the Thompsons pay down their acquisition debt.

Jere W. Thompson, president and chief executive officer of Southland, announced that negotiations are continuing to sell other assets, including 700 more 7-Eleven stores on top of 270 already sold in the Houston area, the dairies that supply the chain and the ice company on which Southland was founded.

Plugging the Loophole on Imports

Bill May Regulate Customs Decisions

WASHINGTON — Some discount chains and other importers are finding ways to reduce duties on imported merchandise because of widely inconsistent decisions by customs officials, according to concerned federal legislators.

In an effort to plug one of the loopholes which importers use to obtain lower-duty imports, Sen. Bob Packwood, R-Ore., recently introduced a bill to regulate "inconsistent decisions" of customs officials which result in different duties on "identical or substantially similar" merchandise.

Not surprisingly, Packwood reported that the variance in duties at different ports has caused importers to be "biased" toward ports with more "lenient" standards.

"Selecting a port solely on the basis of achieving lower duty rates—commonly known as port-hopping or port shopping—disrupts the import process, increases transportation costs, creates an unwanted and unproductive competitive factor between ports and runs counter to the purposes and goals of U.S. custom laws," he said. "Moreover, inconsistencies in customs rulings on the district level unfairly penalize other ports which lose business to ports in more lenient districts."

The Packwood bill would expedite the review process in cases where customs officers within the same region are charged with levying inconsistent duties. The measure would allow petitions to be filed with the regional commissioner who would be required to "make a determination to remedy" the inconsistency within three working days.

FTC Scores Below-Cost Selling Law

WASHINGTON — The Federal Trade Commission has warned Wyoming lawmakers against broadening the state's anti-discounter "below-cost selling" statute.

In comments submitted at the request of Wyoming's Assistant Attorney General, FTC staff officials said, "An excessively strict law" would deter businesses from "vigorous but legitimate price competition." The staff argued, "Predatory pricing is difficult to accomplish and is therefore quite rare. Firms will rarely engage in genuine below cost pricing, since they typically know they cannot count on a later period of monopoly power during which they can raise prices above their costs and recoup their earlier losses."

In addition, they maintained that few U.S. industries are subject to long-term entry barriers essential in a predatory-pricing scheme.

The FTC staff recommended that Wyoming utilize an independent review of all predation claims "since some businesses complain that competitors engage in predatory pricing without having data to support those claims."

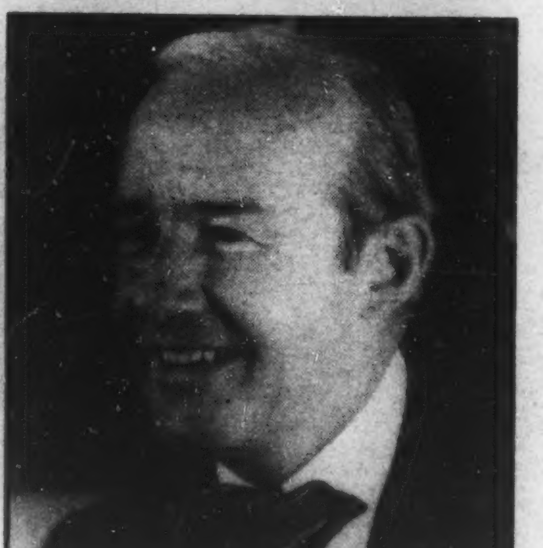
"In examining predatory pricing cases, law enforcement authorities may want to consider how a market is structured before looking at costs and prices," they said. "If the market is structured in a way that does not lend itself to predatory pricing, then many cases can be dismissed without further inquiry."

Ex-K mart Chairman Dewar Retires

TROY, Mich. — Robert E. Dewar, 65, who as chairman and chief executive officer spearheaded K mart's growth to over 1,200 units from 1972 to 1980, will retire Jan. 31. He has held the position of chairman of the executive and finance committees since 1980.

Dewar, who began his 38-year career at K mart in 1949, told *DSN*, "I'm very pleased in the new administration and have full confidence in Mr. [Joseph] Antonini [K mart's chairman]." Dewar also said that the nation's No. 1 discounter will continue to compete with Sears and Penney, but he said, "K mart still has it's niche," adding that "price and value must continue to be a very important emphasis."

Other than looking forward to taking vacations of more than two weeks at a time, Dewar said he will continue to be active on many other corporate boards, as well as participating in many of the Detroit area's cultural and community institutions.



Robert E. Dewar

Traffic Builders Survey

Promos Draw More Shoppers—But Fewer Buy

More people were drawn into a store last year because of a promotion, but fewer actually bought anything.

That is one of the major findings of *DSN's* second annual Traffic Builders Survey.

As in last year's study, household cleaning products ranked as the top traffic building product, followed this year by household paper products and hair care/personal care items.

DSN's Traffic Builders Survey is based on interviews with 1,985 shoppers in seven market areas covering the major regions of the country.

Consumers were interviewed by the Chicago-based research firm, Leo J. Shapiro & Associates, from Oct. 2 to Oct. 5, 1987, as they exited shopping areas in which there were discount department stores and other retailers. To provide comparability with last year's ground-breaking study, the locations of the interviews and the days of the week on which they were conducted were kept the same wherever possible.

The 1,985 shoppers interviewed had made visits to a total of 3,805 stores. Two-thirds (64 percent) of those visits were to discount department stores, 12 percent to a mass merchandiser (Sears, Penney or Ward), 4 percent to a full-price department store, and the balance to other types of retailers.

Among shoppers at a discount department store, 70 percent knew of an item on sale or special before making their visit to the store. At the mass merchants, 37 percent of shoppers were aware of a sale item.

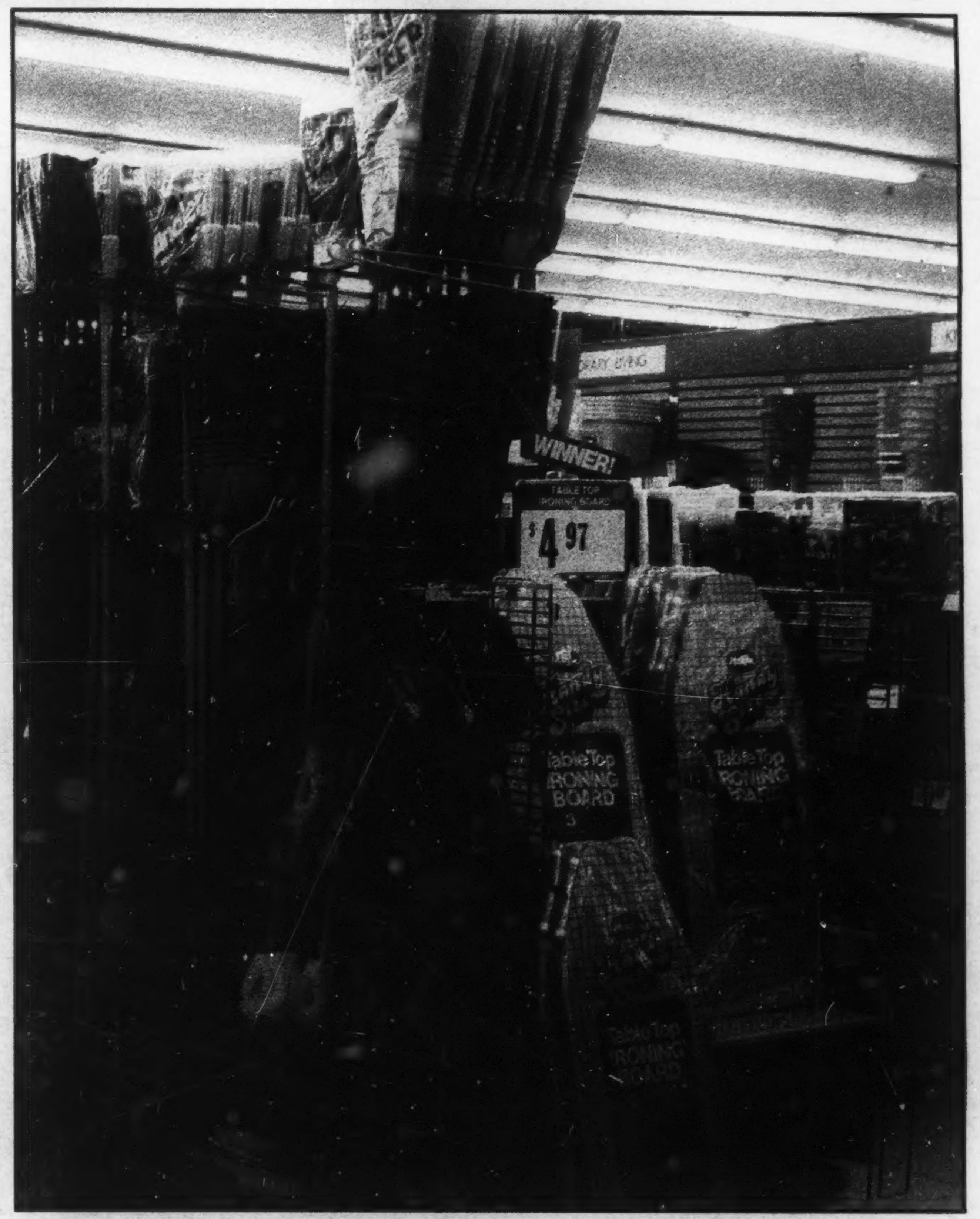
Overall, among all shoppers, half of the visits made were influenced by a promotional item, that is, the shopper knew of an item on sale at the store before shopping the store. That is a significant increase from the prior year's study, when just 35 percent of all shoppers were aware of a sale or special before shopping.

The top three traffic building products at discount stores were household cleaners, household paper products and candy. At mass merchants, bedding and women's apparel were the top traffic builders.

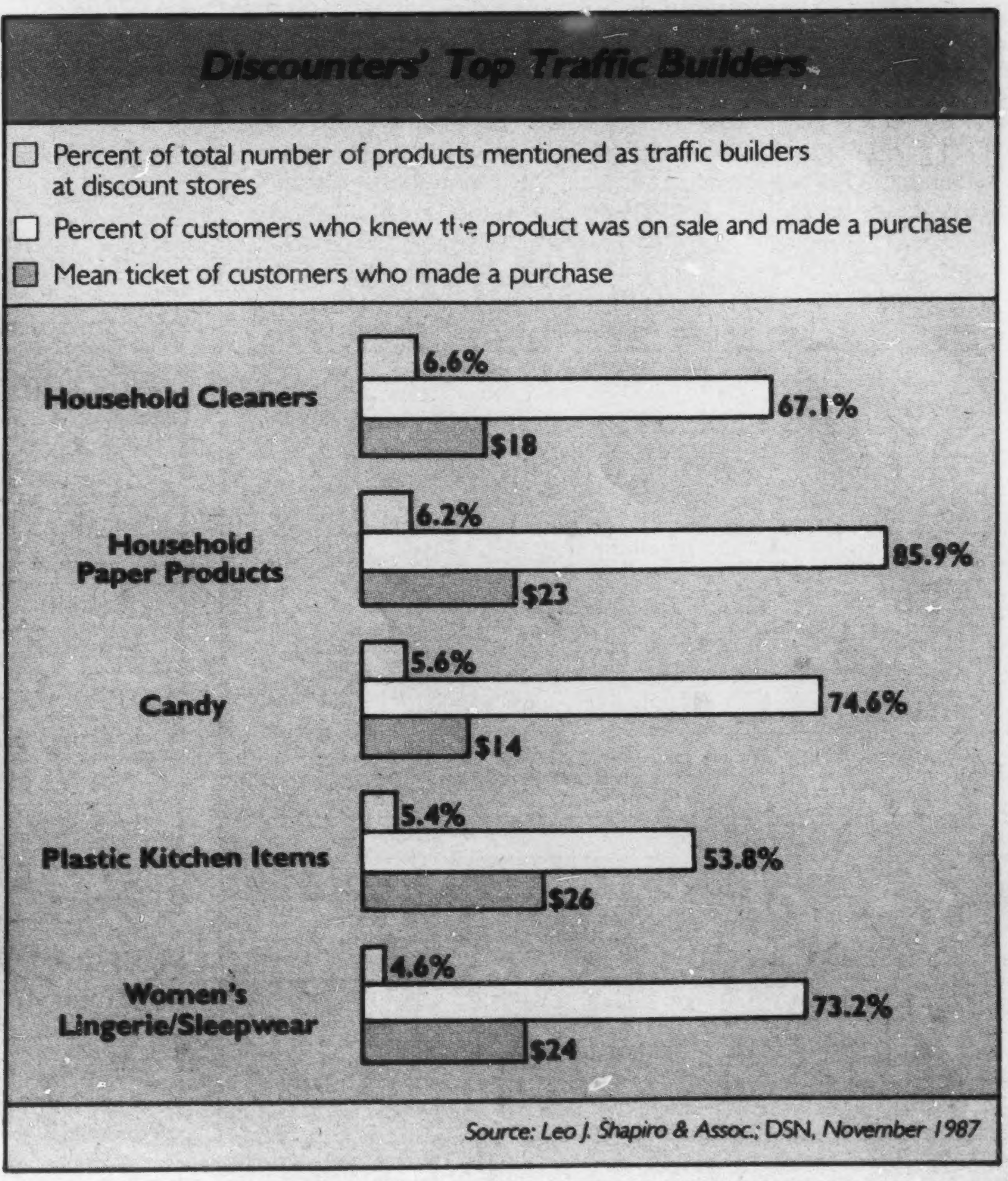
The top three traffic builder brands in 1987 were Rubbermaid, General Electric and Hi & Dri. Comet, Quaker State, Tide, GE, Fisher Price and Prestone were the only six brands to repeat their rankings among the top 20 traffic builder brands.

This special *DSN* research-based report also examines:

- How discount stores have improved their ability to attract consumers with sales and promotions, and identifies the top traffic building product categories and brands of 1987 (page 22);
- The improved mean tickets discounters derived from promotional items last year (page 29);
- Why consumers were considerably more bargain-conscious—more shoppers in every age group were aware of traffic building promotions last year (page 35);
- Research that shows candy remained a favorite discounter traffic builder, but other food items experienced a steep decline in consumer awareness (page 37);
- Why discounters are stepping up their promotion of apparel (page 39);
- How inexpensive household items like cleaners, paper products and laundry products continued to be top discount store traffic builders even though the percentage of consumers that mentioned being aware of a promotion or sale of these products declined somewhat from the previous year (page 47);
- How hair care and personal care products were the most popular promotional goods among discount store hard lines products—a category that proved to be very good at attracting new or infrequent customers as well as above average in stimulating add-on sales (page 59).



Over 10 percent of shoppers attracted to a discount store by a sale in 1986 said they had seen an ad for household cleaning products, compared to 6.6 percent in 1987, however, the mean ticket of those shoppers rose from $13 to $18.



Source: Leo J. Shapiro & Assoc.; DSN, November 1987

Plastic kitchen items—most likely fueled by promotion of microwave accessories—finished third in mentions among home products by bargain-conscious discount shoppers. The mean ticket for these shoppers was $26. (DSN photos)

Promo Items Attract More Discount Shoppers

By Peter Hisey

Discount stores sharply improved their ability to attract consumers with sales and promotions last year, but they were less adept at extracting dollars from those customers' wallets.

An exclusive, *DSN*-sponsored study of top traffic builders also found that the sharp rise in promotional shopping, coupled with a drop in the mean dollars spent by those shoppers, may have contributed to the flat or decreased profits experienced by many discounters.

According to the survey, conducted in October 1987 by Leo J. Shapiro & Associates, Chicago, more than seven of 10 discount store shoppers knew of a sale or promotion before going into the store (up from 49 percent a year ago), but, mysteriously, only 65 percent of shoppers actually bought anything, down from 74 percent in 1986.

So what gives? Did 35 percent of consumers attracted by promotions forget their billfolds? While it's possible that some of those who left stores empty-handed last year were just window-shopping, most were probably motivated shoppers who noticed a particular product on sale, liked the price and showed up ready to spend. And didn't.

An obvious culprit is out-of-stocks, a situation that has bedeviled the discount industry since the first "Low, Low Prices" sign went up a few decades ago. In response, most leading chains have invested heavily in computer equipment, new distribution centers, inventory replenishment systems and the like specifically to combat out-of-stock problems.

The problem, apparently, still plagues the discount industry. One industry supplier noted that discounters had become worried about the increasingly unstable economy earlier this year, particularly in the area of budget and foreign trade deficits, and reacted by cutting inventories and relying prematurely on just-in-time systems that don't work very well yet.

> ***Predictably, relatively inexpensive goods are discounters' best drawing cards, while department stores and mass merchandisers are most successful using relatively expensive apparel and home fashion items as traffic builders.***

Part of the problem may be that discounters have become far better than the competition at promoting their products, resulting in increased demand for certain products, many of which may have been difficult to stock in the first place. As mentioned, 70 percent of discount department store shoppers were aware of a sale before showing up to shop vs. 37 percent at mass merchandisers like Sears and Penney, 29 percent at full-price department stores, 21 percent at specialty stores and 62 percent at drug stores.

With that advantage, however, discounters were only able to hold their own in actually getting interested shoppers to buy. The new survey found that last year, 65.5 percent of all shoppers surveyed who were aware of sale items actually made a purchase vs. 65.2 percent of discount store shoppers. Mass merchandisers (56.1 percent) and department stores (50 percent) were less effective—but sold twice as much per purchase.

Most of those attracted to discounters by promotions called themselves regular customers, yet many still didn't buy. Price appears to have limited appeal in attracting new shoppers; discounters were clearly less effective in pulling in shoppers new to the store through promotion than were other types of retailers.

Regular Discount Shoppers

Only 28 percent of discount shoppers attracted by a promotion said that they rarely shopped at the store, compared to 59 percent of department store shoppers and 64 percent of mass merchandiser shoppers.

Drug stores, almost as effective as discount stores in drawing customers through promotion, also shared discount stores' relative inability to attract new shoppers. To some degree, shoppers at both kinds of outlets would have ended up there anyway, promotion or no, because these stores provide a good deal of the basic commodity type of products they need.

Predictably, relatively inexpensive goods are discounters' best drawing cards, while department stores and mass merchandisers are most successful using relatively expensive apparel and home fashion items as traffic builders.

The impact of these differing orientations shows up most visibly in the amount consumers spend; discount customers spent a mean of $28 per visit, only half of the $56 spent by department store customers and significantly less than the $47 spent at mass merchandisers.

Top traffic-building products were, as they were a year ago, primarily cheap bulk

(Continued on page 24)

Discounters' Top Traffic Builders*

Household cleaners and household paper products draw the most traffic at discount stores.

Percent of total number of products mentioned by shoppers as traffic builders at discount stores	
Household Cleaners (1)	6.6%
Household Paper Products (3)	6.2
Candy (5)	5.6
Plastic Kitchen Items (–)	5.4
Women's Lingerie/Sleepwear (10)	4.5
Hair Care/Personal Care Products (2)	4.4
Laundry Products (11)	3.9
Home Storage (e.g., mirrors, closet organizers) (7)	3.1
Women's Jogging Suits (18)	3.1
Women's Sportswear (–)	3.1
Motor Oil (16)	2.9
Women's Shoes/Boots (9)	2.7
Women's Sweaters (14)	2.6
Women's Blouses/Shirts (–)	2.5
Toys/Games (6)	2.4
Other Automotives (e.g., batteries, brake fluid) (13)	2.3
Other Home Care (e.g., tool boxes, leaf bags) (8)	2.1
Other Food/Candy (e.g., peanuts, beer, gum, cookies) (4)	2.1
Infants/Toddlers' Clothing (–)	2.0
Light Bulbs (–)	1.8

*Top 20 of 50 products mentioned, last year's ranking in ( ), new entries indicated by (–).

Products which dropped out of top 20: antifreeze, sheets/comforters/bedspreads, motor oil, over-the-counter drugs, craft items, women's accessories. Light bulbs included in other home care in 1986; combined, the two categories would place 7th this year.

Source: Leo J. Shapiro & Assoc.; DSN, November 1987

Discounters' Top Traffic Builder Brands*

Rubbermaid, which didn't place last year, was most popular by a wide margin.

Percent of total number of brands mentioned by shoppers as traffic builders at discount stores	
Rubbermaid (–)	15.3%
General Electric (–)	6.6
Hi & Dri (–)	5.5
Quaker State (–)	5.3
Delsey (–)	4.1
Tide (–)	3.7
Comet (1)	3.7
Prestone (2)	3.4
Coca Cola/Coke (–)	2.5
Mr. Clean (–)	2.1

*Top 10 of 48 brands mentioned, which accounted for 42 percent of all brands mentioned; last year's ranking in ( ); new entries indicated by (–).

Source: Leo J. Shapiro & Assoc.; DSN, November 1987

Mass Merchants' Top Traffic Builders*

Domestics are still strong as traffic builders, but clothing is increasingly important.

Percent of number of products mentioned by shoppers as traffic builders at mass merchants	
Women's Clothing (–)	11.7%
Sheets/Comforters/Bedspreads (1)	11.7
Women's Lingerie/Sleepwear (6)	5.8
Bath Towels (4)	5.8
Window Coverings (3)	5.8
Men's Underwear (–)	4.9
Women's Blouses/Shirts (9)	3.9
Women's Dress Pants/Slacks (–)	3.9
Men's Shirts (–)	3.9
Motor Oil (–)	2.9

*Top 10 of 33 products mentioned; last year's ranking in ( ); new entries indicated by (–).

Eight products tied for 10th place among mass merchandisers, but motor oil placed better overall.

Source: Leo J. Shapiro & Assoc.; DSN, November 1987

Department Stores' Top Traffic Builders*

Apparel remains top traffic item at department stores, but domestics are making inroads.

Percent of total number of products mentioned by shoppers as traffic builders at department stores	
Women's Sweaters (7)	13.9%
Women's Clothing (–)	13.9
Women's Lingerie/Sleepwear (–)	11.1
Women's Shoes/Boots (4)	8.3
Women's Blouses/Shirts (1)	8.3
Hair Care/Personal Care Items (5)	5.6
Women's Jeans (–)	5.6
Sheets/Comforters/Bedspreads (–)	5.6
Bath Towels (–)	5.6
Other Home Storage (e.g., mirrors, closet organizers) (–)	2.8

*Top 10 of 17 products mentioned; last year's ranking in ( ); new entries indicated by (–).

Source: Leo J. Shapiro & Assoc.; DSN, November 1987

Promotional Items Attract More Discount Shoppers

(Continued from page 22)

Individual Retailers' Use of Promotional Advertising

Zayre, which has undertaken a promotional blitz since mid-1987, dropped off badly from 82.2% last year; Venture nearly doubled its 48% rating in 1986.

Percent of shoppers who knew of a sale item before visiting store

Retailer	Type of Retailer	
Venture (3)	Discount Dept. Store	88.7%
K mart (2)	Discount Dept. Store	70.9
Zayre (1)	Discount Dept. Store	66.0
Target (5)	Discount Dept. Store	52.7
Montgomery Ward (4)	Mass Merchandiser	45.4
Wal-Mart (8)	Discount Dept. Store	41.7
Sears (6)	Mass Merchandiser	27.9
J.C. Penney (7)	Mass Merchandiser	26.1

Last year's results in ( ).

Source: Leo J. Shapiro & Assoc.; DSN, *November 1987*

Dependence on Promotional Advertising

Discount department stores seem to be even more promotion-intensive than last year, although most other retailers have also stepped up promotion.

Type of Retailer*	Percent of Shoppers Who Knew of a Sale Item Before Visiting Store
Discount Department Stores	70.3% (48.6%)
Drug Stores	62.3 (15.5)
Mass Merchandisers	36.9 (36.3)
Catalog Showrooms	33.3 (45.2)
Discount Specialty Stores	32.1 (9.2)
Department Stores	28.2 (20.4)
Specialty Stores	20.7 (14.9)

*Sample of catalog showrooms, discount specialty stores and department stores was relatively small in comparison to samples of consumers at discount department stores and mass merchandisers. Last year's results in ( ).

Source: Leo J. Shapiro & Assoc.; DSN, *November 1987*

household items and consumables like candy and snacks. Household cleaners were ranked No. 1 for the second year in a row, although the category's margin over other popular products shrank dramatically, and hair care and personal care items held onto second place, tying household paper products, which moved up from sixth place.

Generally speaking, the highest-impact promotional items tended to be inexpensive, frequently replaced or replenished products like those above and laundry products, toys and home care items, all products often identified with discount stores. However, apparel products made a far stronger showing last year than in the first *DSN* Traffic Builders Survey a year ago, indicating stronger promotional activity on the part of department stores and mass merchandisers.

Discount stores evidently are making inroads in the women's apparel market, evidenced by stronger showings in virtually every category over last year. Lingerie, shoes, blouses, jogging suits and sportswear were all up in mentions by discount customers and down at mass merchants and department stores, although the latter two still dominate the market.

This may be one of the most significant findings of the survey, in that many discounters are undergoing upscaling efforts that generally translate to increased attention to apparel. Evidently, consumers are getting the message, although the percentages have increased only gradually. For instance, the percentage of shoppers who mentioned seeing ads for women's lingerie rose from 3.2 percent in 1986 to 4.6 percent in 1987, a modest 1.4 percent increase but a significant one in light of the category's relative importance to a discount store.

Consumers may have looked a little more at discounters for their soft lines needs, but they still perceived full-price department stores and mass merchants as their primary sources. Apart from motor oil, the list of top 10 traffic building products at mass merchants was made up entirely of soft goods, about evenly split between apparel and soft home goods.

Consumers seemed to be acutely aware of mass merchants when they went looking for domestics. Sheets, comforters and bedspreads and bath towels were mentioned frequently by these shoppers, and hardly at all by discount shoppers.

For the second year in a row, mass merchants were also clearly the source of choice for men's apparel by promotion-conscious shoppers.

Department stores evidently strengthened their appeal in the domestics area last year, with three related product groups penetrating the top 10 department store traffic builders, which in 1986 was the exclusive preserve of women's clothing and personal care items. Those, however, remained very strong with department store shoppers.

Stepped-Up Promotions

Overall, it appears that while discounters are making progress in attracting customers for higher-fashion, higher-ticket products, department stores and mass merchants have stepped up promotional activity in those areas themselves to retain market share.

If that is so, they may be in for a tough fight. Discounters are clearly far more reliant upon promotion and probably better at employing it. Further, it appears from the research that the best promotion items for building traffic are cheap hard goods and other inexpensive non-apparel items, which are discounter strengths.

Top products in drawing *new* customers were slightly more expensive hard goods like car care products, furniture, paint, hardware, sporting goods, tableware, pet supplies, over-the-counter drugs and light bulbs. Clearly, discounters have an edge in most of these categories.

Overall, 70 percent of discount shoppers said they were aware of a promotion before entering the store vs. 37 percent at mass merchandisers and 29 percent at department stores.

Top Discount Promoters

According to the study, Venture and K mart were the best chains at promoting themselves and their products. Nearly nine of 10 Venture shoppers were aware of a sale item before entering the store; 71 percent of K mart shoppers were similarly well-informed.

Zayre, which had just undertaken a promotional blitz in the three months preceding the study, was slightly behind K mart at 66 percent while Target, normally considered a top promoter, lagged behind at 53 percent. Stolidly anti-sale Wal-Mart trailed the pack at 42 percent.

Among mass merchandisers, Montgomery Ward shoppers (45 percent) were almost twice as likely as Penney or Sears shoppers to have known about a sale item, perhaps re-

(Continued on page 26)

Household cleaners were ranked the No. 1 traffic builder for the second year in a row, although the category's margin over other popular products shrank dramatically. (DSN photo)

DISCOUNTERS SELL MORE

Menswear

Reach all the decision makers in this dynamic market in the February 29 MAGIC Show issue of Discount Store News.
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Call John Failla now at (212) 371-9400 to reserve ad space.

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THE NEWSPAPER OF DISCOUNT RETAILING

THE AUTHORITY FOR 25 YEARS

The number of discount store customers who said they had seen an ad for motor oil was up nearly 50 percent from last year's traffic builders study. (DSN photo)

Promos Attract More Discount Shoppers

(Continued from page 24)

flecting the company's repositioning in the marketplace as a specialty store within a store.

Montgomery Ward was also the highest among all stores (including discounters) in attracting new customers through promotion. Seventy percent of Montgomery Ward shoppers aware of a promotion before entering the store said they were infrequent or new customers. Sears (58 percent) and Penney (48 percent) also scored well in this measure with new customers.

Discounters did not fare as well. Venture again led the way at 41 percent, followed by Wal-Mart, where 40 percent said they were new or infrequent customers. Target (35 percent), Zayre (31 percent) and K mart (22 percent) lagged behind, although, in K mart's case, it could be argued that a shopper unexposed to the company's omnipresent store network is a rather rare and wonderful thing.

Overall, it appears that discount stores are best, promotionally speaking, at inducing regular customers to shop more often than at attracting new customers.

Of 1986's top 30 traffic-building brands, 10 managed to find their way back to the top 30 last year. These included Rubbermaid (tied for 24th last year, a strong No. 1 this year), Comet, Prestone, Fisher Price, AC Delco, Colgate, L'Eggs, General Electric, Sani-Flush and Hershey. Levi just missed the top 30.

Overall, discount stores are best at inducing regular customers to shop more often than at attracting new customers.

Conversely, 20 new brands entered the top 30 traffic builders list of 1987. They included Hi & Dri, Quaker State, Delsey, Tide, Coke, Wrangler and Mr. Clean. However, the report's authors noted that with thousands of brands vying for consumer attention, a year-to-year convergence of 10 brands is above expectations in a survey of this kind.

With minor exceptions, the overall top 30 traffic building brands nearly coincide with the top 30 discount store traffic builders. GE and Prestone were helped somewhat (and Wrangler considerably) by mass merchant shoppers, while Fruit of the Loom owed its standing mainly to department store shoppers. J.P. Stevens and Cannon, both further down the list, probably would not have rated at all but for extremely high ratings among mass merchant and department store customers.

Popular promotional brands ran across department lines, although various hard line home products dominated. Automotive brand names (Quaker State, Prestone, Gum-Out, Motorcraft and Fram) were very well represented in the listing, as were cleaning products and food and snack items.

Apparel, given its strong category showing, fared poorly in brand recognition, with only Wrangler, Gitano and Fruit of the Loom placing among the top 48 brands. Those 48, by the way, accounted for 42 percent of all brands mentioned.

Guess who just made a big name even bigger?

Sarah Coventry®
AMERICA'S
Fashion Jewelry

Ask your customers who Sarah Coventry is, and 92% of them will be able to tell you – quality fashion jewelry. Attractive to look at. Attractively priced. Attractive to mass merchandisers.
- Free floor displays that take up a little bit of space, but make a big impression.
- Key price points to bridge your low-end fashion goods and your [illegible]

p&b

Discounters Build Promo Ticket with Frequency, Add-on Sales

Discounters appear to be gaining added and more profitable sales from their promotional goods than other types of retailers. According to *DSN*'s second annual Traffic Builders Survey, discounters improved their mean ticket derived from promotional items last year to $28, up from $24 in 1986.

The research, conducted in November 1987 by Chicago-based Leo J. Shapiro & Associates, indicates that discounters appear to be spending their promotional dollars on low-cost, frequently consumed products at the expense of larger ticket items like apparel, bedspreads and consumer electronics.

Mass merchants, like Sears, Penney and Ward, and full-price department stores, on the other hand, tend to promote the more expensive items that make up the bulk of their merchandise.

The result, predictably, is a lower mean ticket at discounters than at the other types of stores. However, the study suggests that, while discounters may sell less per shopper, they may profit more by eliciting profitable add-on sales and drawing customers into their stores more often.

For instance, some of the leading low-cost promotional items in terms of attracting shoppers were automo-

(Continued on page 31)

*Attracting New and Infrequent Customers**

Mass merchandisers are more successful at using promotions to attract infrequent shoppers.

Retailer	Type of Retailer	Percent of Infrequent Shoppers Who Knew of a Sale Item Before Shopping Store
Montgomery Ward	Mass Merchant	69.7%
Sears	Mass Merchant	58.3
Penney	Mass Merchant	48.4
Venture	Discount Dept. Store	41.4
Wal-Mart	Discount Dept. Store	40.0
Target	Discount Dept. Store	35.4
Zayre	Discount Dept. Store	30.9
K mart	Discount Dept. Store	22.3

**Customers who shopped a store less than twice a month*

Source: Leo J. Shapiro & Assoc.; DSN, November 1987

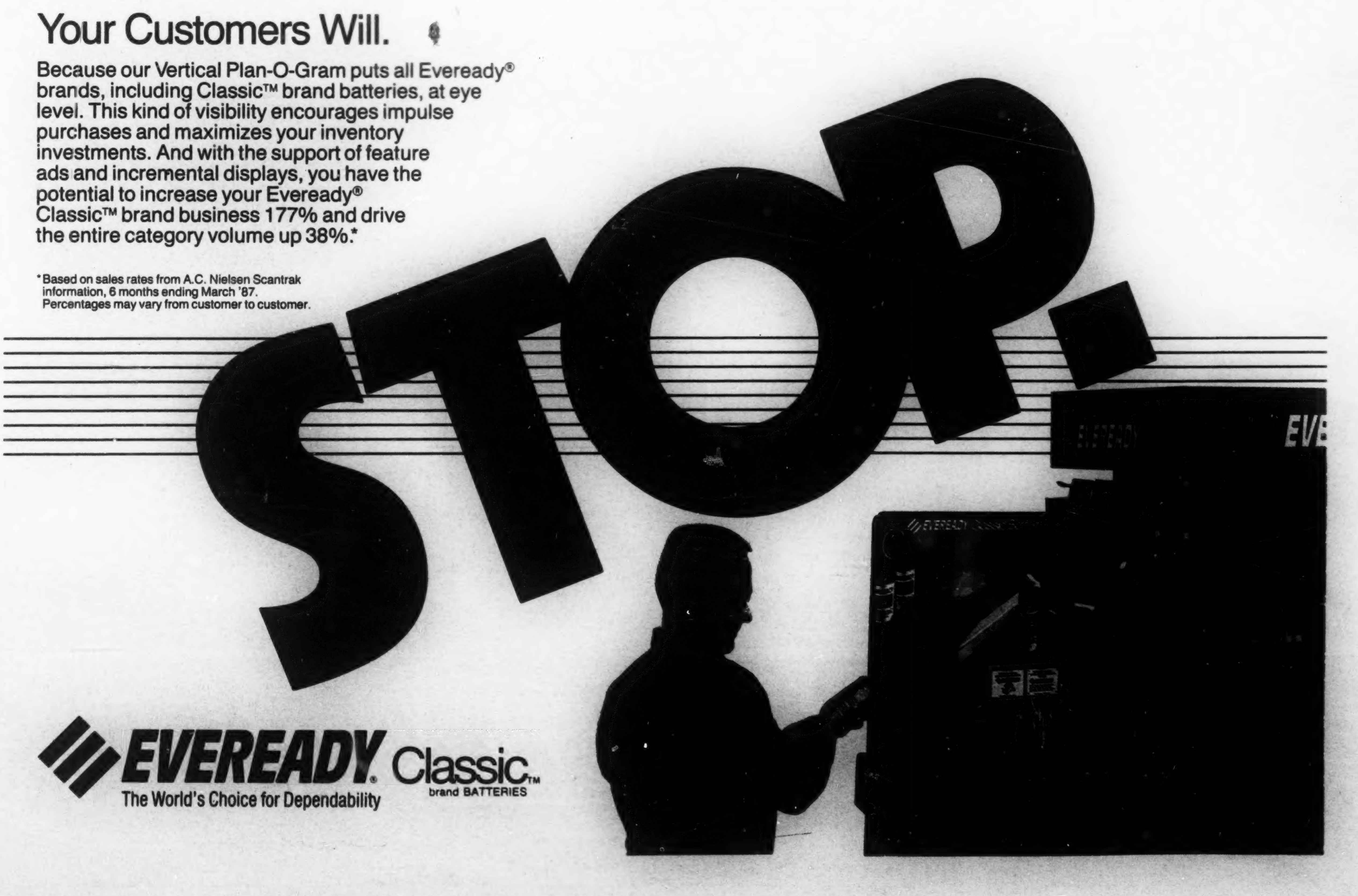
Effectiveness of Product Promotion in Attracting New and Infrequent Customers

Apparel and other personal items were the most effective in luring non-shoppers.

All Who Knew of a Sales Item and Were Coming to Shop For:	Customers Who Shop at This Store	
	Often*	Not Often
Household Cleaners	79.2%	20.8%
Household Paper Products	71.6	28.4
Hair Care/Personal Care Items	59.1	40.9
Candy	75.9	24.1
Plastic Kitchen Items	76.3	23.8
Women's Lingerie/Sleepwear	69.7	30.3
Laundry Products	71.9	28.1
Women's Shoes/Boots	60.7	39.3
Home Storage (e.g., mirrors, closet organizers)	68.1	31.9
Toys/Games	59.6	40.4
Women's Blouses/Shirts	80.0	20.0
Women's Jogging Suits	75.6	24.4
Women's Sweaters	68.2	31.8
Motor Oil	65.9	34.1
Women's Sportswear	62.8	37.2
Home Care (e.g., tool boxes, leaf bags)	61.5	38.5
Food/Candy (e.g., peanuts, beer, gum)	68.4	31.6
Automotives (e.g., batteries, brake fluid)	73.0	27.0
Women's Clothing	46.9	53.1
Infants/Toddlers' Clothing	62.5	37.5

**Shopping twice a month. Products are ranked by overall mentions.*

Source: Leo J. Shapiro & Assoc.; DSN, November 1987



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*Based on sales rates from A.C. Nielsen Scantrak information, 6 months ending March '87. Percentages may vary from customer to customer.

EVEREADY Classic™ brand BATTERIES
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Add-on Sales Build Mean Promo Tickets

(Continued from page 29)

tive products, motor oil (separated from other auto items), diapers, plastic kitchen items, antifreeze, laundry products, soda, light bulbs and several other hard lines products generally associated with discount stores. The mean ticket for these items ranged from $30 to $18, while the price of each item was below $10 (and often below $5).

Discount shoppers generated tickets well above the price of the promotional items.

It appears that discount shoppers either bought a lot of each item that attracted them to the store or they bought additional products, not necessarily promotionally priced.

For example, the consumer who was drawn to the store by a motor oil promotion reported an average ticket of $30 on that visit; the consumer drawn by a promotion on diapers spent an average of $27 at the store; and the consumer who was aware of a promotion on laundry products walked out of the store after spending an average of $23.

Department stores, on the other hand, specialized their promotions in what the survey identified as middle and highest cost items, mainly apparel, bedding and jewelry. While the mean ticket at department stores rose significantly last year (from $40 to $57), the figures suggest that that figure was often spent on one promotional item, with few add-on sales of full-price goods.

Of middle cost items, the most profitable and frequently purchased were children's clothing and recreational goods (toys, sports equipment), products generally associated with discount stores. Lower down on the list were the products more associated with discounters and mass merchandisers: sweaters, bedspreads, women's shoes, towels and sleepwear.

Mean tickets ranged from $40 down to $23. In contrast to lower priced products, it's not hard to envision average consumers spending their entire mean ticket of $34 on a bedspread or $40 for a sweater at a department store.

Highest price items resulted in even fewer add-on sales. Televisions garnered a mean ticket of $201, about the price

(Continued on page 33)

Tickets Generated by Traffic Builders

Product That Shopper Knew Was On Sale	Percent Who Made a Purchase	Mean Ticket
Low Cost Items		
Tableware	72.7%	$34
Automotives (e.g., batteries, brake fluid)	69.0	30
Motor Oil	78.1	30
Diapers	83.3	27
Cosmetics	80.0	27
Plastic Kitchen Items	53.8	26
Home Storage (e.g., mirrors, closet organizer)	73.3	25
Antifreeze	83.8	24
Household Paper Products	85.9	23
Middle Cost Items		
Children's Clothing	78.8	55
Recreation/Toys (e.g., sporting goods)	70.0	43
Women's Sweaters	50.0	40
Home Care (e.g., tool boxes, leaf bags)	70.8	39
Women's Blouses/Shirts	63.0	35
Sheets/Comforters/Bedspreads	65.3	34
Toys/Games	74.4	33
Highest Cost Items		
Television	35.0	201
Yard Furniture	55.6	87
Women's Clothing	46.9	73
Women's Dress Pants/Slacks	55.3	54
Watches	53.1	46
Women's Jeans	78.9	45
Window Coverings	67.5	29

Source: Leo J. Shapiro & Assoc.; DSN, November 1987

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Add-on Sales Build Mean Promo Tickets

(Continued from page 31)

of an inexpensive set. The mean ticket for women's jeans was $45, roughly the full price for one pair.

Further, department store and mass merchant promotions tended to attract a high percentage of new or first-time shoppers, while discount stores' promotions tended to attract their regular shoppers with their low-budget sales. It appears, given the mean tickets of shoppers for more expensive items, that many of these new or infrequent customers are more likely than regular shoppers to buy only the promotional items that originally attracted them.

Although not explicit in the figures, it appears that there is a relationship between the price of promotional products and add-on sales. In very general terms, on a continuum marked on the left by cheap prices and many add-on purchases and on the right by high prices and no add-on purchases, discount stores would be somewhere to the left of both mass merchants in the middle and department stores furthest to the right.

Total Ticket Generated by Traffic Builders at Discount Stores

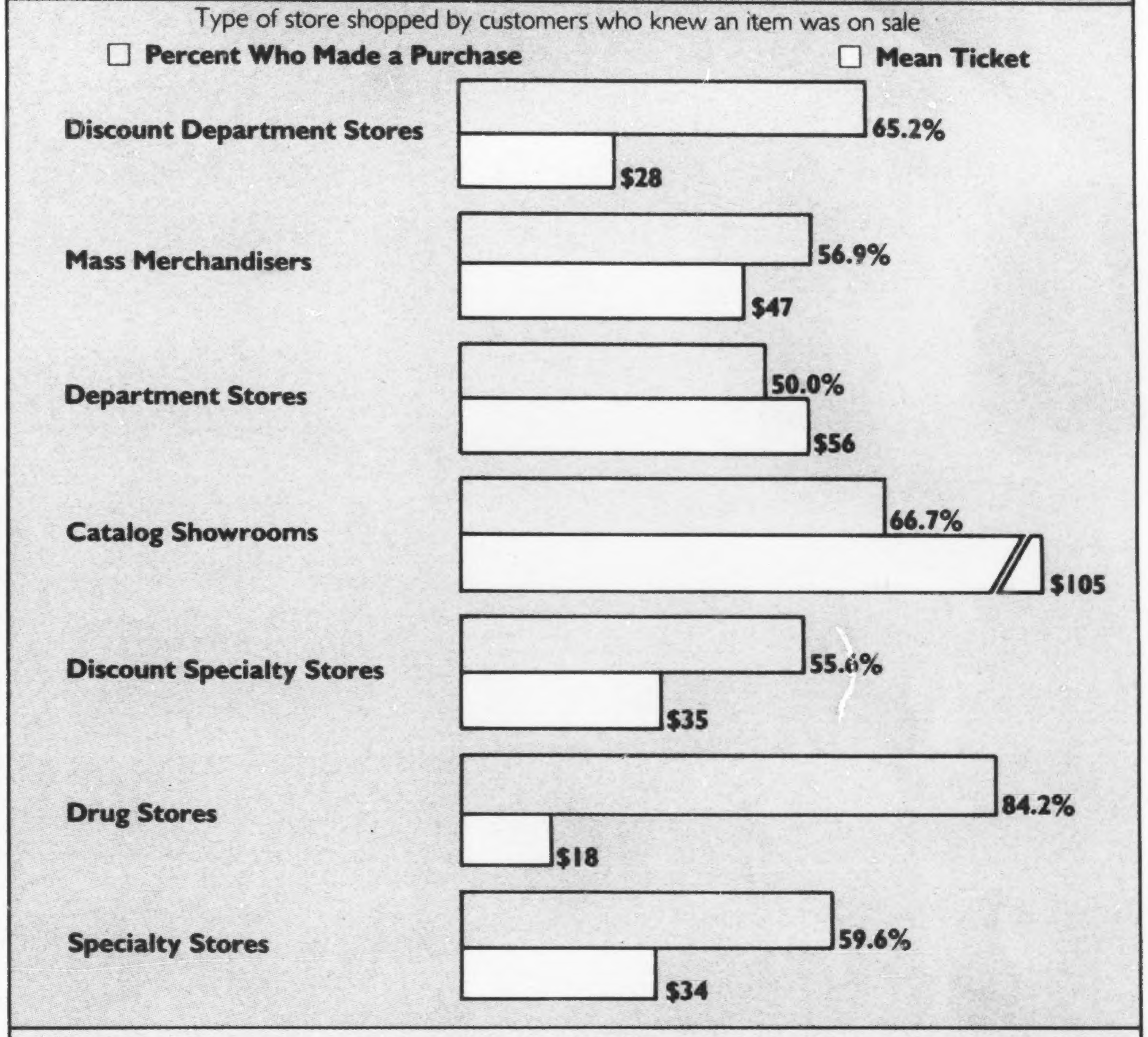
Venture shoppers were far more likely to buy and spent as much at other chains; Wal-Mart and K mart, surprisingly, had a tough time parting promotion-minded customers from their money.

Store Shopped by Shoppers Who Knew a Product Was On Sale	Percent Who Made a Purchase	Mean Ticket
Venture	82.9%	$31
Target	72.0	31
Wal-Mart	56.0	31
Zayre	75.4	28
K mart	57.9	26

Source: Leo J. Shapiro & Assoc.; DSN, November 1987

Tickets Retailers Garner from Their Traffic Builders

Discount store shoppers attracted by promotions generally make a purchase, but their mean ticket is much lower than at most other retailers.



Source: Leo J. Shapiro & Assoc.; DSN, November 1987

Your Customers Will.

Because it's about time someone explained which batteries are best suited for certain devices. And that's what we've done on our Classic™ brand battery package back. We'll also reinforce proper device usage in our consumer print campaign. Because we know that if your customers use Classic™ brand batteries appropriately, they'll be impressed by the performance. And that's why they'll be back to buy more.

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Promotions Grow More Important to Cautious Consumers

Americans may have been caught by surprise by the stock market crash in October, but according to a shopping pattern survey conducted less than two weeks before the crash, they knew *something* was up. Compared to the year before, shoppers in every age group were considerably more interested in what was on sale and for how much before entering a store than they were just a year earlier.

In 1986, bargain shoppers were in a distinct minority. Only two age groups, 55 to 64 and 65 and older, showed as much as a 40 percent awareness of promotions. The picture changed radically in 1987, as only one age group, those under 25, measured under 40 percent. In other age groups, the percentage was closer to 50 percent, and well over half of older consumers were aware of promotions.

Bargain Awareness Grows

Even traditionally less bargain-conscious younger consumers displayed distinct awareness of store promotions and ads. In 1986, only 18 percent of men under 25 knew of a sale or promotion before walking into a store. Last year, 30 percent of them had seen an ad or a circular before shopping. In 1986, only 27 percent of women in the same age group were aware of promotions; in '87 the percentage increased to 36 percent, the smallest increase of any age/sex category.

However, the increased attention to sales and specials was even more dramatic in the older age groups. For instance, 50 percent of men between 45 and 54 knew about promotions in 1987, up from 32 percent in 1986. Nearly 60 percent of women in that age group were clipping coupons last year vs. a little under 40 percent in 1986, one of the most dramatic increases revealed by the survey.

Women between 55 and 64 were the most likely, at 62 percent aware of sales or specials, to snap up bargains, but men over 65 were also scanning circulars. A little less than 60 percent of them said they were aware of ads or promotions before entering the store, up from 44 percent the previous year, the highest total that year.

Consumers in the 25 to 34 age range were more aware of promotions last year, as about 46 percent of them checked prices before shopping, up from 31 percent who did so the previous year.

As in 1986, there was a direct correlation between advancing age and attention to sales and specials. Young men, even though they were far more knowledgeable about sales, specials and promotions last year than in 1986, were still only half as likely as senior women to check prices before shopping. There was a steady increase in awareness of promotions in each succeeding age group, with the surprising exception of the final one—those 65 or older.

Those in that age group are generally retired and often living on fixed incomes, which would indicate both the time and the motivation to compare carefully before shopping. However, only 54 percent of senior citizens over 65 were aware of specials last year, vs. 58 percent of those 55 to 64 and 56 percent of those 45 to 54. Nearly as many (53 percent) of those between 35 and 44 were aware of promotions before shopping. Nevertheless, this still marked a significant increase over 1986, when only 42 percent of those over 65 said they were aware of promotions on specific products before shopping.

The difference is more one

(Continued on page 37)

Shopper Profile

Generally speaking, older shoppers were more aware of specials and sales. Women, except in the 65 and older age group, were routinely more bargain conscious than were men.

Age	Percent of All Shoppers Who Knew of Sale/Special	Percent of Women Shoppers Who Knew of Sale/Special	Percent of Men Shoppers Who Knew of Sale/Special
Under 25	33.9%	35.6%	29.9%
25-34	45.6	46.9	58.6
35-44	52.7	53.4	50.2
45-54	56.3	58.7	50.5
55-64	57.9	61.5	47.2
65 and Over	53.8	52.6	58.9

Source: Leo J. Shapiro & Assoc.; DSN, November 1987

The price is right.
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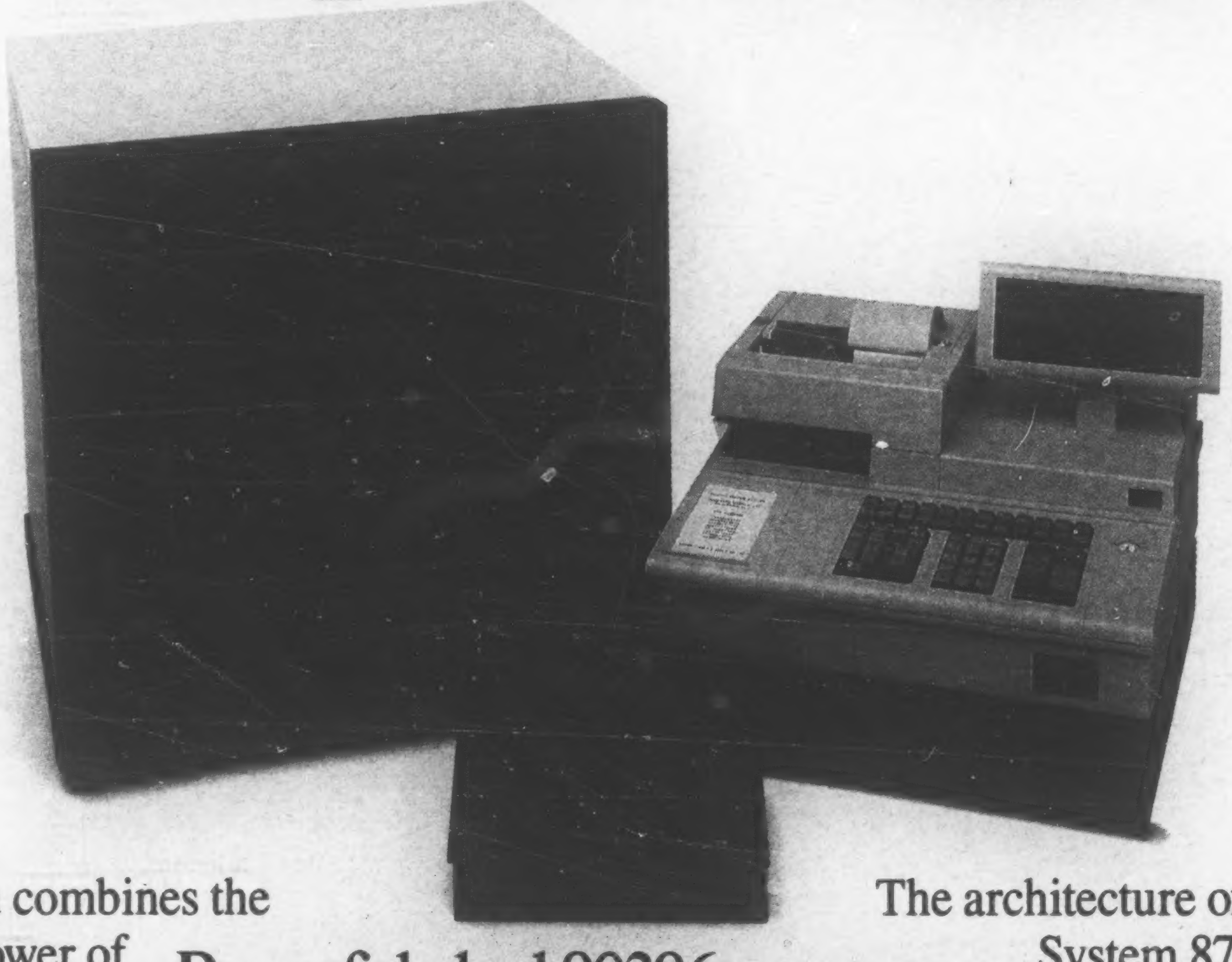

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Candy Gains Share of Mentions Among Promo Miscellaneous Items

Miscellaneous products, those items (mainly food-related) which don't fit in any of the three main merchandise categories—apparel, home products and hard lines—did not fare as well in 1987 as traffic builders.

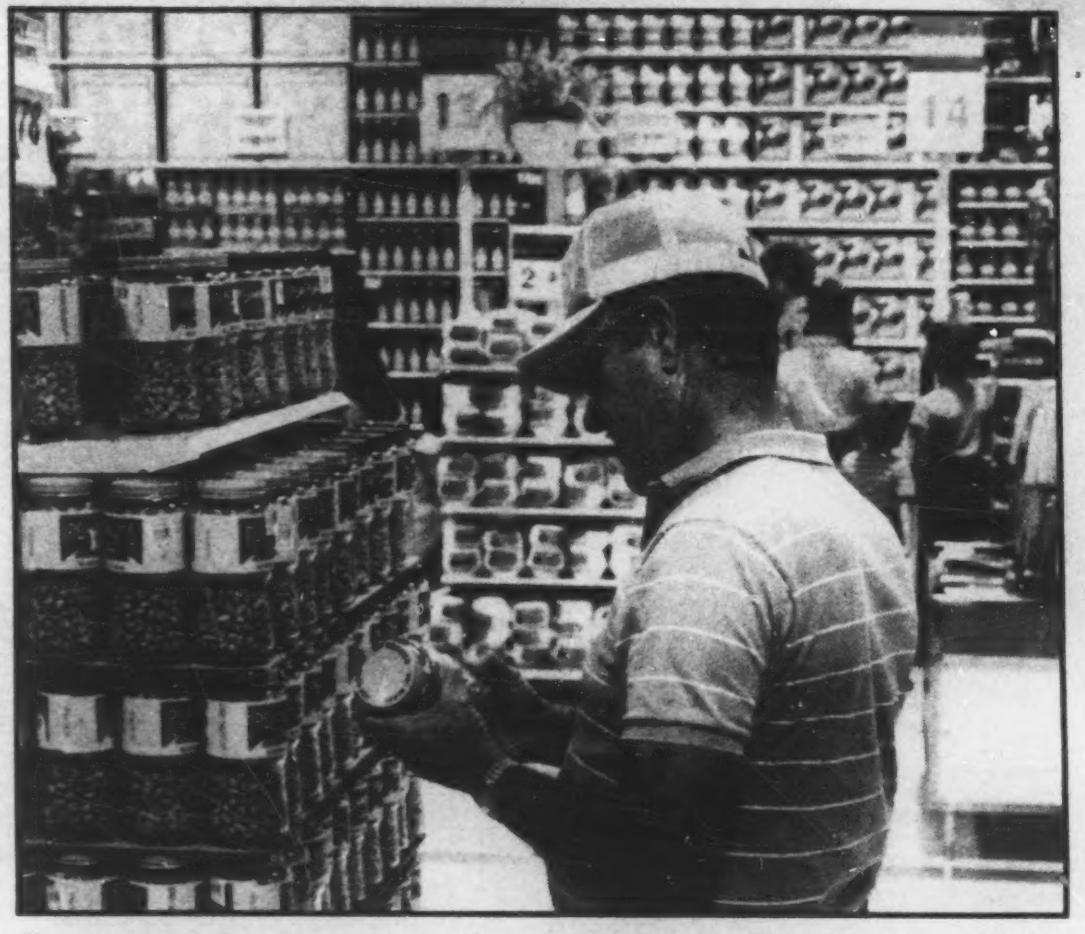
Although candy, perennially a strong traffic builder, rose from 6th place to 4th place in 1987 and several others improved their standings, the "other food" category, which includes beer, nuts and other food items, crashed from 6th place to 16th. Flowers, costume jewelry and canned fruit plummeted off the chart.

Additionally, these seem to be purely promotional products. Only one item, watches, bettered the discount average in mean tickets. However, at $46, there wasn't much left after the sale of a watch for add-on sales. Others with minimal add-on value were plants ($12 mean ticket), canned ham ($15), candy ($14) and other foods ($13). An exception, soda (with a mean ticket of $23) appears to have generated significant add-on sales.

Overall, most products seemed to do better at discount stores than they did overall, but the differences were generally minor. Discounters accounted for a very high percentage of sales in all areas except, again, soda pop (65 percent).

For a small category, miscellaneous items had a high level of brand consciousness. Coke finished high in name recognition (6th overall), followed by Hershey (11th). Other brands mentioned included Timex and Brach's.

Candy was the main gainer in share of mentions by promotional shoppers, increasing its count from 4.3 percent to 5.5 percent. Other foods dropped two percentage points, from 4.5 percent in 1986 to 2.5 percent in 1987.



The 'other' food category (beer, nuts and other food items) fell from 6th place to 16th place in shopper mentions. (DSN photo)

All Age Groups Are More Aware Of Sales, Promos

(Continued from page 35)

of comparative increases. In 1986, those 65 and over were at least as likely to check prices as any other age group, and significantly more so than those in the 35 to 44 range. Evidently, reports that life has been very good for retirees in the past year are correct, although the market crash could have a dampening effect.

Women were more value conscious than men in every age group except among those over 65, often by significant margins. For instance, 59 percent of women between 45 and 54 were aware of promotions vs. 50 percent of men. Nearly 62 percent of women between 55 and 64 checked prices before shopping vs. 47 percent of men. By contrast, 59 percent of men 65 and older were careful shoppers, compared to 53 percent of women that age.

This contrasts with the findings of a year ago, where women were significantly more aware of promotions than men in only one age group—those under 25. In every other age group except (again) those over 65, women were only marginally more price oriented than men. (Men turned the tables after the age of 65 in 1986, as they did in 1987.)

Among the findings in this survey, none was as consistent and across-the-board as the growth of promotion consciousness among consumers. What the survey can't tell us, unfortunately, is the why behind this marked trend.

The raw numbers of respondents are interesting, and should be particularly so to discounters aiming at an older market. According to the survey, which interviewed exiting shoppers at random, the largest number of shoppers were women between the ages of 25 and 44, not very surprising. However, overall, the highest number of shoppers (men and women) were in the 25 to 34 age group and a surprisingly high number (third most overall) were under 25. Overall, 58 percent of respondents were under 45 years old.

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Traffic Builders

Apparel

Apparel Is in High Style for Discounter Promos

Discounters appear to be stepping up their promotion of apparel, although those products still hold less importance to discounters than they do to department stores and, to a lesser degree, mass merchants, like Sears, Penney and Montgomery Ward.

In nearly every apparel classification, the percentage of consumers who said they were aware of an apparel promotion at a discount store increased, often substantially, last year compared to the previous year, according to *DSN's* second annual Traffic Builders Study.

In 1986, 16 apparel product classifications accounted for about 22 percent of store visits overall by consumers who had seen an advertisement or promotion before coming to a discount store. Last year, 13 of those products accounted for about 27 percent of discount store visits by value-oriented shoppers.

> ***In nearly every apparel classification, discount shopper promotion awareness increased—often substantially—over 1986.***

In contrast, the importance of apparel products as a traffic builder may have slipped slightly in both department stores and at mass merchandisers.

In 1986, 16 apparel products accounted for 80 percent of all mentions by department store shoppers; last year the figure slipped to 64 percent. Only 41 percent of mass merchant shoppers were attracted by an apparel promotion vs. the 43 percent from a year ago.

Comparing shifts in individual apparel products among discounters, department stores and mass merchants is problematic due to terminology used by the survey respondents in identifying the category that drew them into the store. In the current survey, a large number of respondents cited the grab bag category "women's clothing" as the promotion that brought them into the store. The previous year, very few consumers used that term, choosing more specific areas instead. In the current survey, 12 percent of mass

(Continued on page 41)

Product Category	Percent of Total Mentions at All Stores	Discount Stores		Mass Merchants		Department Stores	
		Percent of Total Mentions	Percent of Mentions in Category	Percent of Total Mentions	Percent of Mentions in Category	Percent of Total Mentions	Percent of Mentions in Category
Women's Lingerie/ Sleepwear (3)	4.5%	4.6%	85.5%	5.8%	7.9%	11.1%	5.3%
Women's Shoes/Boots (1)	3.3	2.7	67.9	1.0	1.8	8.3	5.4
Women's Blouses/Shirts (4)	2.6	2.5	77.8	3.9	8.9	8.3	6.7
Women's Jogging Suits (5)	2.6	3.1	97.8	—	—	—	—
Women's Sweaters (2)	2.6	2.6	81.8	2.3	1.0	13.9	11.4
Women's Sportswear (11)	2.5	3.1	100.0	—	—	—	—
Women's Clothing (–)	1.9	1.1	46.9	11.7	37.5	13.9	15.6
Infants/Toddlers' Clothing (6)	1.9	2.0	87.5	2.9	9.4	—	—
Women's Jeans (14)	1.6	1.6	78.6	1.9	7.1	5.6	7.1
Women's Accessories (9)	1.3	1.4	82.6	1.9	8.7	2.8	4.3
Men's Underwear (–)	1.3	1.2	77.3	4.9	22.7	—	—
Women's Outdoor Coats/ Jackets (7)	1.2	1.1	76.2	1.9	9.5	2.8	4.8
Women's Dress Pants (8)	1.0	0.9	70.6	3.9	23.5	—	—
Men's Shirts (10)	0.8	0.6	61.5	3.9	30.8	2.8	7.7

Product Category	Percent of Mentions by Frequent Shoppers at All Stores*	Percent of Shoppers Who Bought a Product They Knew Was On Sale	Mean Ticket of Those Who Bought the Sale Item**
Women's Lingerie/Sleepwear	69.7%	73.2%	$24
Women's Shoes/Boots	60.7	58.1	28
Women's Blouses/Shirts	80.0	63.0	35
Women's Jogging Suits	75.6	63.8	33
Women's Sweaters	68.2	50.0	40
Women's Sportswear	62.8	59.6	28
Women's Clothing	46.9	46.9	73
Infants/Toddlers' Clothing	62.5	67.9	25
Women's Jeans	71.4	78.9	45
Children's Clothing	64.0	78.8	55
Women's Accessories	69.6	71.1	18
Men's Underwear	68.2	72.7	20
Women's Coats/Jackets	66.7	64.3	43
Women's Dress Pants/Slacks	70.6	55.3	54
Men's Shirts	61.5	67.9	21

MARKETWATCH

CARSON, Calif. — **The Fashion Channel Network** had a net loss of $6.1 million on net sales of $313,000 for the third quarter ended Oct. 31, 1987. The Fashion Channel, the nation's newest home shopping cable TV service devoted exclusively to brand name apparel and accessories for men, women and children, began airing Oct. 1. The company had no significant revenues prior to that date. For the first nine months of the fiscal year to date, the company reported a net loss of $9.6 million on net sales of $313,000. Charles W. Gee, 2nd, chairman and chief executive officer, said the recently concluded period included the successful completion of the company's $21 million initial public stock offering. Ten major multi-system cable operators have been added to the network since Oct. 1, according to Gee, bringing to 75 the number of MSOs carrying The Fashion Channel, which includes 28 out of the nation's top 30 MSOs. Close to 9 million cable TV households are expected to receive TFC's 24-hour programming by Jan. 30, the end of the company's fiscal year.

CHICAGO — **Montgomery Ward** named Malvin Pavik apparel group vice president, the third man to hold that position within the last year. Pavik, formerly senior vice president of stores, succeeds John Weil as head of the chain's apparel operations. Pavik was also named an executive vp of Montgomery Ward. Weil will become an import consultant to Ward. Weil and the man he succeeded, Richard Bourret, lasted a total of eight months in the position. Pavik will be responsible for the development and implementation of the company's apparel strategy, and he will report to Bernard Brennan, Montgomery Ward's ceo.

* * *

HAYWARD, Calif. — **Mervyn's** has named David R. Brunkal senior vp, general merchandise manager, men's, children's and home furnishings. He succeeds Art Comeau, who has resigned. Brunkal had been vp, gmm, men's and home furnishings. Brunkal also becomes a member of the executive committee and reports to Walter Rossi, president and ceo.

Discounters Increase Apparel Promos, Gain Market Share

(Continued from page 39)

merchant shoppers and 14 percent of department store customers used the term, possibly muddying results in those stores. However, only 1.1 percent of discount store shoppers cited women's clothing, a relatively insignificant amount.

Nevertheless, survey results show that discount stores picked up the pace in apparel promotion and bolstered their capability to draw apparel customers, perhaps at the expense of full-price department stores and mass merchants.

Discounter gains were spread among several product areas, but the most visible were lingerie/sleepwear, up from 3.2 percent of total mentions to 4.6 percent; women's sportswear, up to 3.1 percent of total mentions from 1.2 percent; and women's blouses and shirts, which more than doubled from 0.9 percent to 2.5 percent. Other gainers were women's sweaters, women's jogging suits, infants' and toddlers' clothing, women's coats and jackets and women's jeans.

Discounters picked up the pace in apparel promotion and bolstered their capability to draw customers, perhaps at the expense of full-price department stores.

Women's shoes, best at attracting discount store apparel customers in 1986, lost ground (from 3.2 percent to 2.7 percent), as did women's dress pants and slacks, women's accessories and men's shirts. Several minor categories did not make the list of top traffic builders in 1987, including men's coats and jackets, women's skirts and men's accessories.

Women's shoes also fell off compared to 1986 at mass merchants, along with women's sweaters, women's jogging suits, infants' and toddlers' clothing, women's sportswear, and women's coats and jackets. Gainers included women's lingerie and sleepwear, women's blouses and shirts, women's dress pants and slacks, women's accessories, men's shirts and women's jeans, along with the less specific women's clothing.

Department stores swam against the stream, at least in the women's shoes and boots category, which was up slightly and in women's blouses and shirts, which dropped slightly. Other categories which showed a gain over 1986 included women's sweaters, lingerie and sleepwear, women's coats and jackets, and women's accessories.

Losers at full-price department stores included women's blouses and shirts, women's jogging suits, infants and toddlers' clothing, women's dress pants and slacks, men's shirts and women's jeans. However, response rate from department store shoppers was lower than that at discounters and mass merchants, casting a wider margin of error on department store trends in this survey.

Discounter promotional attention to apparel is perhaps best illustrated by comparing the relative level of consumer interest among discount shoppers and overall consumer interest.

In 1986, most apparel items were ranked higher in their

(Continued on page 45)

Sportswear
Maternity
30
30
30

Women's sportswear (above, at a Columbus, Ohio Gold Circle) was one of the hottest 1987 apparel categories, more than doubling its 1986 rating. (DSN photo)

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Discounters Increase Use of Apparel Promotions, Gain Market Share

(Continued from page 41)

ability to pull in customers at all stores than at discount stores. For instance, due to high ratings at other stores, women's skirts were ranked 34th overall at all stores, but 65th at discount stores that year.

In 1987, apparel products routinely finished higher among discount store customers than they did overall. For instance, women's lingerie and sleepwear was ranked sixth overall, but fifth among discount customers. Women's sportswear ranked 16th overall, 10th with discounters. And, women's jogging suits, 12th overall, were ranked eighth among all products by discount store customers.

Other categories at discount stores which outperformed the total market were women's sweaters, infants and toddlers' clothing, women's jeans, children's clothing, women's accessories, men's underwear and women's coats and jackets.

Women's blouses and shirts, women's shoes and boots, men's shirts and the catch-all, women's clothing, did not perform as well at discount stores as at all stores. However, the differences were not as lopsided as they were a year ago.

> *In 1987, apparel products routinely finished highest among discount store customers.*

Since most of the top-rated traffic builders at discount stores were hard line goods, apparel at both mass merchants and department stores predictably fared better than at all stores. However, women's shoes and boots, women's sweaters and women's sportswear significantly underperformed the market with mass merchant customers.

Apparel brand name mentions were few and far between at all stores, though a few brands gained significant mentions from discount customers. Wrangler was easily the most commonly named brand, primarily among discount store and mass merchant customers. Others mentioned were Fruit of the Loom, Gitano and Hanes.

Wrangler, the 10th most often named brand overall, finished 16th with discount customers and first with mass merchant shoppers. Hanes, 17th overall, tied Wrangler for 16th among discount shoppers, while Fruit of the Loom, tied for 20th overall, tied for 29th at discount stores. Gitano owed its 25th place finish solely to discount shoppers, among whom it finished 20th.

Whether apparel creates add-on sales is open to question, and, given the category's relatively healthy margins, may be beside the point. At mid price points, only children's clothing, with a $55 mean ticket, chalked up a sizeable mean ticket. Women's blouses and shirts ($35) also may attract add-ons.

However, women's jogging suits ($33), women's shoes and boots ($28), and women's lingerie and sleepwear ($24) seem to leave the store without add-ons since the mean ticket these items generate is about the same as the price of one of these items.

At the highest price points, women's clothing ($73) and women's dress pants and slacks ($54) may be promoting other sales, but women's jeans ($45) lost significant ground in that area last year.

In 1986, the mean ticket among shoppers who were aware of an ad or promotion for jeans was $93, which indicates a lot of jeans or significant add-ons, even in the designer area. In 1987, the mean ticket slid to $45, possibly due to the greater discount share of the market. Even at discount prices, however, not much is left over for further purchases.

Overall, discounters aiming to penetrate the massive and lucrative apparel market seem to be making inroads.

INTIMATE APPAREL
NYLON PAJAMAS

Intimate apparel, seen here at Stuarts, Nashua, N.H., placed first among apparel categories and fifth among all products, mainly due to strong promotional appeal to discount shoppers. (DSN photo)

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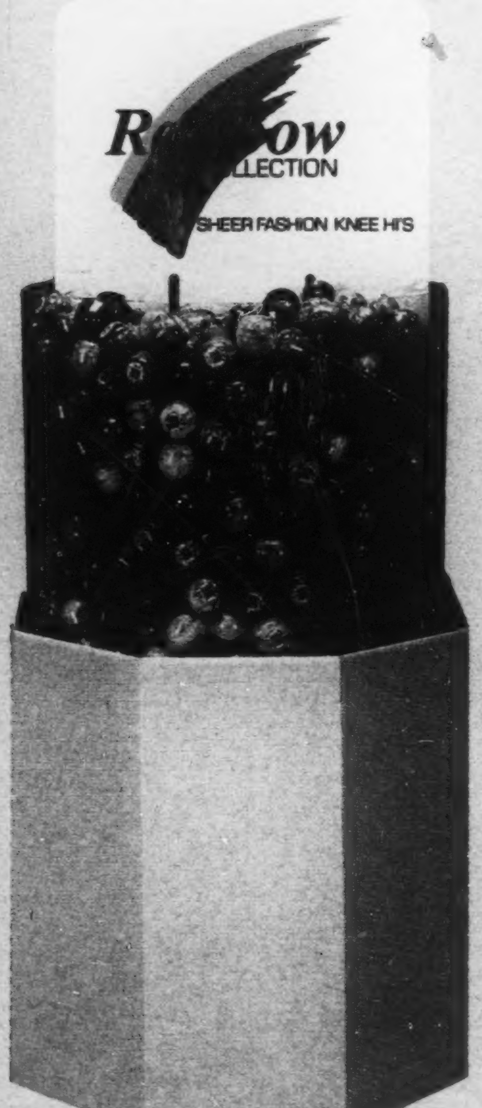
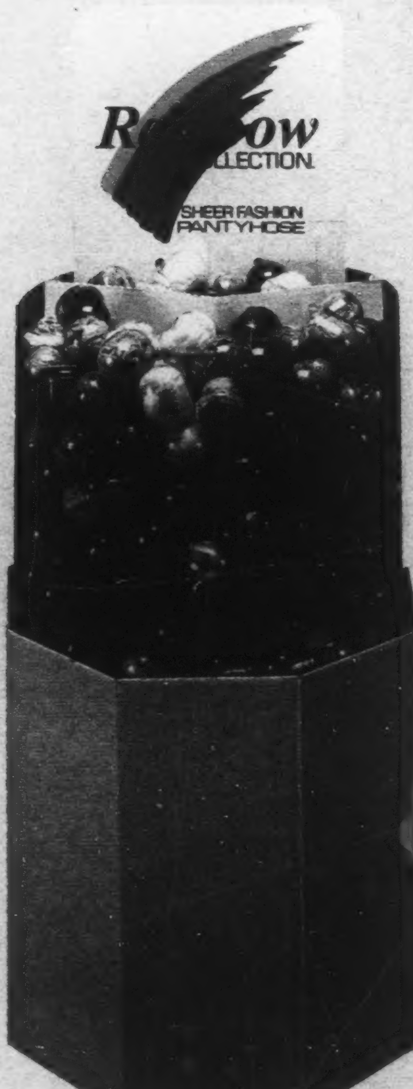


Knee High Display



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Traffic Builders

Home Products

Household Cleaners Make Clean Sweep Again

Inexpensive household items like cleaners, paper products and laundry products were three of the four top discount store traffic builders last year. However, the direction of the industry seems to be changing, according to *DSN*-sponsored research conducted by Leo J. Shapiro & Associates last fall.

While household cleaners and household paper products retained their one-two home products ranking of a year ago as the goods most successful at drawing customers into stores, their overall scores shrank. Last year, over 10 percent of consumers attracted to a store by a promotion said that they had noticed ads for household cleaners. This year, that percentage declined to 6.6 percent.

Last year, over 10 percent of consumers attracted to a store by a promotion said that they noticed ads for household cleaners.

The percentage of consumers who said they were aware of a paper product promotion before entering a store dropped less dramatically, from 6.6 percent to 6.2 percent.

However, if discounters are downplaying promotion of these cheap, oft-consumed items, it appears that the reason has nothing to do with their add-on-sale potency. In 1986, household cleaners accounted for a $13 mean ticket; household paper products brought in $17. Last year, those mean tickets rose to $18 and $23, respectively, both good totals for relatively cheap goods. Far more expensive items, like window coverings ($26) and cookware ($27), had slightly higher mean tickets but, given their higher price, probably didn't stimulate much in add-on business.

Any downplaying of cheap home goods probably owes more to profitability patterns than anything else. Cleaners, paper goods and so on are often marginally profitable at best and, if *DSN* store visits are indica-

(Continued on page 51)

Traffic Builder Products: Home Products

Product Category	Percent of Total Mentions at All Stores	Discount Stores		Mass Merchants		Department Stores	
		Percent of Total Mentions	Percent of Mentions in Category	Percent of Total Mentions	Percent of Mentions in Category	Percent of Total Mentions	Percent of Mentions in Category
Household Cleaners	5.6%	6.6%	95.8%	—	—	—	—
Household Paper Products	5.2	6.2	98.9	1.0%	1.1%	—	—
Plastic Kitchen Items	4.7	5.4	95.0	—	—	—	—
Laundry Products	3.8	3.9	85.9	—	—	—	—
Sheets/Comforters/ Bedspreads	1.6	0.9	48.1	11.7	44.4	5.6%	7.4%
Cookware	1.3	1.5	95.5	—	—	—	—
Bath Towels	1.3	1.0	63.6	5.8	27.3	5.6	9.1
Window Coverings	1.2	0.9	65.0	5.8	30.0	2.8	5.0
Craft Items	1.2	1.4	95.0	—	—	—	—
Hard Furniture	0.9	0.8	73.3	2.9	20.0	—	—
Tableware	0.8	0.9	92.3	—	—	—	—
Televisions	0.7	0.6	75.0	2.9	25.0	—	—

[illegible]

Customer Response to Home Products Traffic Builders

Product Category	Percent of Mentions by Frequent Shoppers at All Stores*	Percent of Shoppers Who Bought a Product They Knew Was On Sale	Mean Ticket of Those Who Bought the Sale Item**
Household Cleaners	79.2%	67.1%	$ 18
Household Paper Products	71.6	85.9	23
Plastic Kitchen Items	76.3	53.8	26
Laundry Products	71.9	88.2	23
Sheets/Comforters/Bedspreads	66.7	65.3	34
Cookware	68.2	93.5	27
Bath Towels	63.6	58.5	26
Window Coverings	35.0	67.5	29
Craft Items	90.0	69.7	15
Hard Furniture	33.3	55.6	87
Tableware	30.8	72.7	34
Televisions	58.3	35.0	201

MARKETWATCH

NEW YORK — **The New York Gourmet Show** will be held Oct. 30 to Nov. 2, 1988 instead of the previously announced early October dates to coincide with the New York Tabletop & Accessories Show which commences Oct. 29. The Gourmet Show is produced by New York-based George Little Management Inc. Last year's Gourmet Show—including the Gourmet Products, Entirely Tabletop, and Gourmet Food & Beverage divisions— was held in early November.

* * *

WASHINGTON, D.C. — **Hair dryer manufacturers** may soon be required to alert discounters and other retailers about the hazards of defective hair dryers. In remarks made on the House floor, Rep. George Miller, D-Calif., called for "the CPSC [Consumer Product Safety Commission] to issue a regulation immediately" to warn retailers and consumers of dangerous hair dryers on retailers' shelves. A new standard implemented by Underwriters Laboratory requires all hair dryers manufactured after Oct. 1, 1987, to pose "no threat of electrocution even if submerged in water when turned off." Even with the UL standards in effect, discounters and other retailers may still be selling off manufacturers' existing stocks of old dryers without being notified by the manufacturer. "The public remains virtually unaware," said Miller about the hair dryer hazard. He also blamed the "apparent negligence of manufacturers." The CPSC was also scorned by Miller for its "dismal record . . . in carrying out its legislative mandate" to prevent retailers from selling defective products.

* * *

ATLANTA — A research study focusing on consumer attitudes toward **ready-to-assemble furniture** is being conducted by the Virginia Polytechnic Institute and State University, sponsored by the International RTA Furniture Show. Study results will be presented at the RTA show here in November and will identify: consumer demographics and attitudes toward RTA, where and why consumers buy RTA furniture, future RTA purchase plans, and the impact of price, style, quality and other factors when comparing pre-assembled furniture to RTA. RTA retail sales have been projected to double to $4 billion by 1990. The study will be conducted by Virginia Tech's Department of Forest Products and will be entitled, "A Consumer View of Ready-to-Assemble Furniture."

* * *

ROCHESTER, N.Y.— **Ultra Technologies**, a division of Eastman Kodak Company, and **Matsushita Electric Group**, Osaka, Japan, have announced a joint venture corporation that will build a modern battery plant in the United States, projected to open in early 1989 in an undisclosed location. It will operate under the name Matsushita-Ultra Tech Battery Corporation and will produce alkaline manganese batteries for both Eastman Kodak and Matsushita.

Household Cleaners Clean Up as No.1 '87 Traffic Builder

(Continued from page 47)

tive, hard to keep in stock. Those two qualities make them less than ideal promotional items.

If discounters are accentuating their domestics departments, the attention hasn't shown up in the growth of that category as a traffic builder. While bath towels held steady as an inducement to shop (1 percent of total mentions by consumers who were aware of an ad or promotion of the product prior to shopping), sheets/bedspreads/comforters dropped from 2 percent to 0.9 percent last year. The mean ticket for towels rose from $21 to $26, while the ticket for sheets and comforters slid from $36 to $34.

Evidently, the promotional effort once given to cleaners and paper products was transferred to plastic kitchen items, which shot out of nowhere to finish third among home products with a 5.4 percent mention rate from bargain-conscious discount store shoppers. And, those customers stayed to shop, as the mean ticket among those attracted by kitchen products totaled $26, a very respectable total for an inexpensive product category. A surge in promotion of microwave products may have been the impetus here.

As in other categories, mass merchants and department stores sell only a few of the most popular promotional products, and promote even fewer. Department stores were in competition only in the areas of domestics and cookware; mass merchants competed in those two areas as well as in paper products, window coverings and televisions. On the whole, their performance in those product areas did not change much over the previous year.

> ***If discounters are accentuating their domestics departments, it hasn't shown up in the growth of that category as a traffic builder.***

Consumers are evidently sold on discount stores for inexpensive or often replaced home products. In 1986, more than four out of five consumers who knew of a sale on cleaners, paper products, laundry products and cookware were aware of a discount store sale. In 1987, the percentages, if anything, increased and hard furniture very nearly joined the club. Televisions, an area in which discounters garnered only a 25 percent rating last year, tripled to 75 percent.

Discounters' major competitors have not seen fit to cash in on their advantage in the domestics area by promoting the category. Although their lead remained overwhelming, mass merchants and department stores actually lost ground to discounters in most domestics areas.

In 1986, discounters accounted for less than 40 percent of mentions by consumers aware of sales in that area. Last year, the rating for towels nearly doubled to 64 percent and the number of consumers aware of discount store promotions of sheets and comforters rose to nearly 50 percent from 31 percent.

If discounters are intent upon boosting their image as the place to shop for domestics, and they seem to be making that effort, they have a lot of ground to make up.

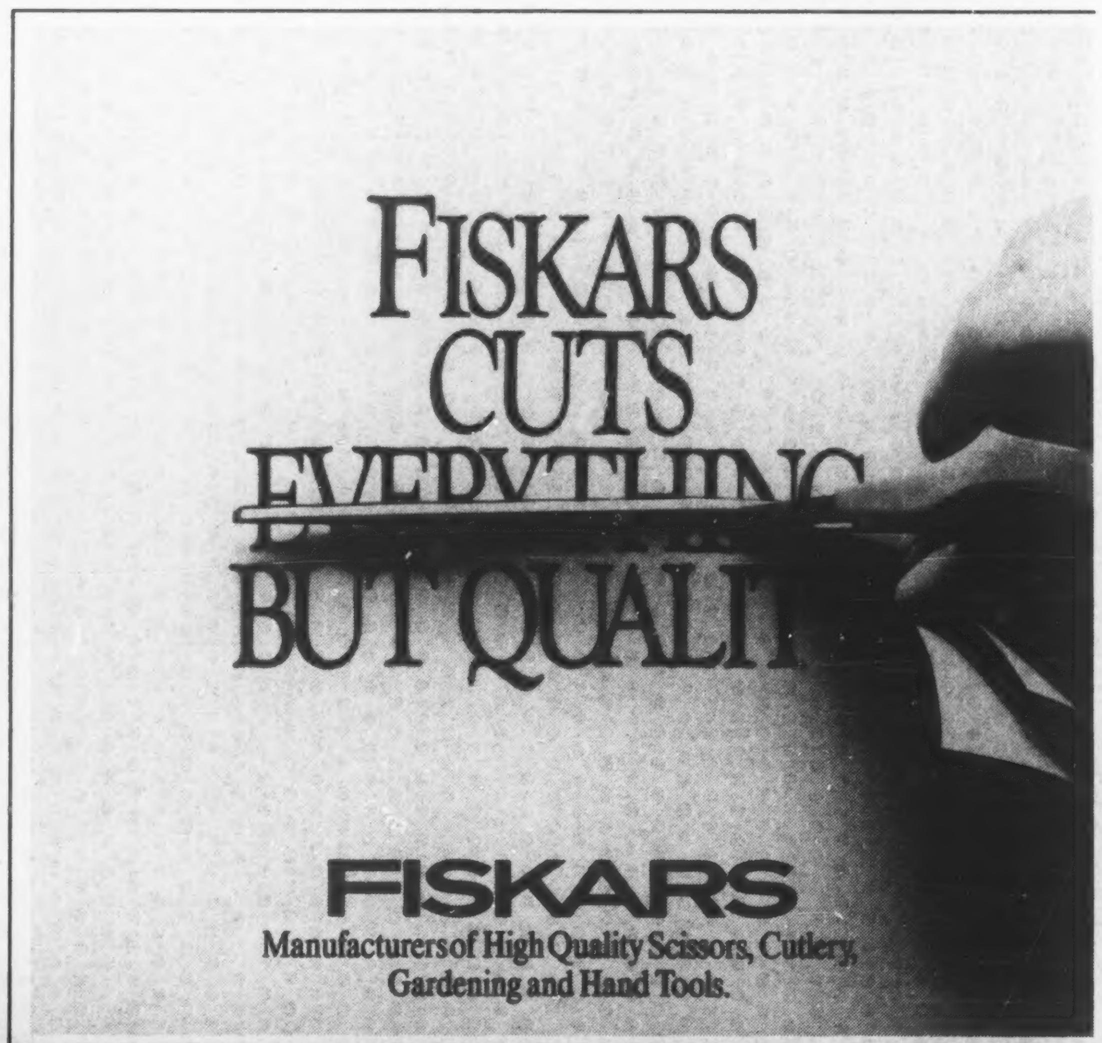
Brand appeal in the home products area seems to be very high. Rubbermaid was the No. 1 brand name overall among all shoppers attracted to a store by a promotion, and it was an overwhelmingly discount-oriented brand. GE (second), Hi & Dri (third), Delsey (fifth), Tide (sixth),

(Continued on page 52)

Discount domestics departments, like this one at Bradlees in Dedham, Mass., tailed off slightly in promotional appeal.

Household cleaners, like these in a Chicago Zayre, were the most effective promotional product at discount stores for the second consecutive year.

(DSN photos)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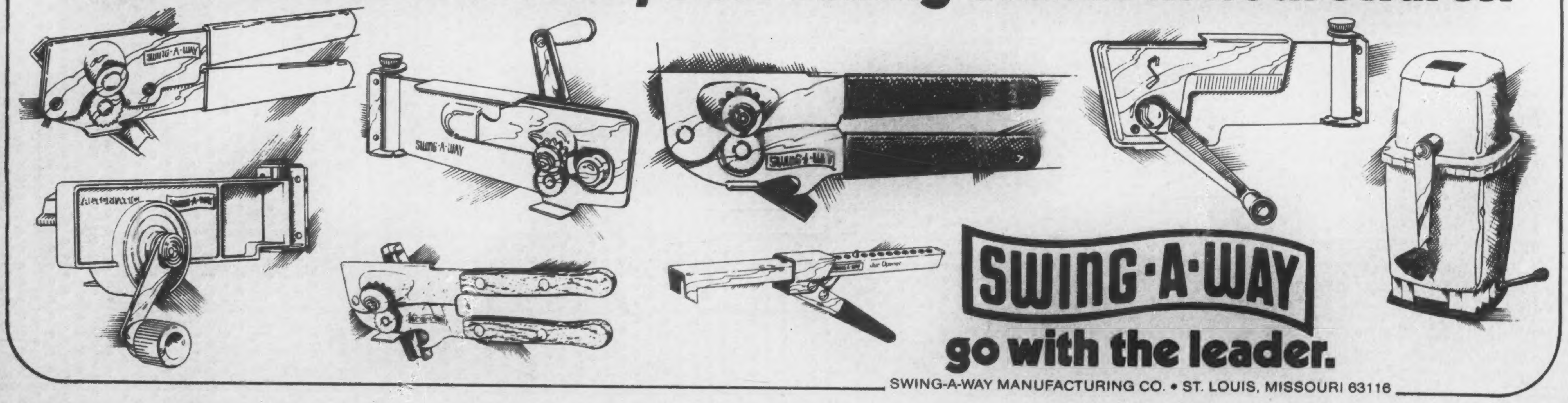
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Household Cleaners, Plastic Kitchen Items Are '87 Winners

(Continued from page 51)

Comet (eighth) and Mr. Clean (11th) were the other top-rated home product brands. These were basically discount store brands, although GE was named by a few non-discount customers as the promotional brand that brought them into stores.

Most other brands were also primarily promoted by discounters. They included Sani-Flush, Clorox, Downey, Dawn, Bounce, Hoover, J.P. Stevens, Pampers, Purex, Joy, Pine-Sol, Glad, Visionware and Cannon. Of those, only Bounce, J.P. Stevens and Cannon were not primarily discount brands.

Basically, the survey suggests, discounters dominate the home products market in promotional activity, with most of their competition coming from drug and specialty stores (lumped together as "Other" in the study) and grocery stores (not included in the survey), except in the domestics area, where traditional retailers control the market.

Discounters competed with this mixed bag of outlets in the areas of household cleaners, plastic kitchen items, laundry products, home care products, light bulbs, soda, tableware and several other minor categories. However, discounters easily dominated these alternative outlets, according to the study.

Discounters dominate the home products market in promotional activity, with most competition coming from drug and specialty stores.

As a rule, promotion involving household products did not attract new or infrequent shoppers. For instance, over 80 percent of those who knew of a special on household cleaners were regular customers of the store they visited. The same held true of most other home products categories, where a rating of 70 percent regular customers was about average.

The exceptions to the rule are interesting. Light bulbs, pet supplies, window coverings and tableware attracted significant numbers of new customers. Unlike most other products attractive to new customers (who are probably comparative shoppers), all except window coverings appeared to stimulate add-on sales.

Pet supplies and light bulbs, two relatively cheap products, accounted for mean tickets of $24 and $18, respectively. Tableware, another relatively inexpensive category, did even better in stimulating add-ons, generating a $34 mean ticket. In contrast, window coverings, considered an expensive product, accounted for a mean ticket of only $29 among shoppers who were aware of a promotion or sale.

Overall, promotional strategies in the home products arena seem to be evolving toward slightly higher margin and price goods. Household cleaners, the epitome of the high-traffic, low-cost traffic builder, lost ground this year, particularly at discount stores, while pricier goods like plastic kitchen products and laundry products gained dramatically over last year.

On the other hand, another low-price, low-margin staple, household paper products, also picked up considerably over 1986, so any movement toward other products appears to be evolutionary in nature.

Cookware, as in this housewares department at an Altoona, Penn. Gee Bee, was effective in drawing new and infrequent customers on promotion. (DSN photo)

WHENEVER YOU NEED SOMEONE TO COUNT ON, SOMEONE TO TALK TO, SOMEONE TO SHARE YOUR HOPES AND DREAMS, I'LL BE THERE FOR YOU.
THE DOCTOR IS IN

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Traffic Builders

Hard Lines

Hair, Personal Care Draw Promotional Shoppers

Hair care and personal care products were the most popular promotional goods among discount store hard lines shoppers in 1987, a *DSN* survey conducted by Leo J. Shapiro & Associates indicates. On the whole, promotional activity in the hard lines area seems to have slipped from 1986 levels, but the category still is very good at attracting new customers and above average in stimulating add-on sales.

The study, conducted in October 1987, questioned shoppers as they left a variety of stores nationwide about what had brought them to the store and what they bought. In short, they bought less hard goods on promotion, in keeping with the widespread de-emphasis of several hard lines areas by discounters.

Rated against all products at all stores, hard goods accounted for only six of the top 20 traffic building products.

Although discounters' shares of most hard goods categories remained constant vs. other types of retailers, the number of customers who said they had seen an ad for a given product shrank in virtually every hard goods product area from customers' responses the previous year.

The exceptions were hair care and personal care products, not included in hard lines last year, which led the category, and motor oil, which was up nearly 50 percent from 1986 at discount stores. On the other hand, home care products and toys were off by around 50 percent each at discounters.

Rated against all products at all stores, hard goods accounted for only six of the top 20 traffic building products (two quasi-hard line food products also finished in the top 20 and over-the-counter drugs finished 21st). Of the 13 leading hard lines product categories, four rose vs. their standing in 1986 against all products that year, eight dropped in

(Continued on page 60)

Traffic Builder Products: Hard Lines

Product Category	[illegible]	[illegible]	[illegible] Category	[illegible] Mentions	[illegible]	[illegible]	[illegible] Category
Hair Care/Personal Care Items	5.2%	4.4%	70.5%	—	—	2.3%	5.6%
Home Storage (e.g., mirrors, closet organizers)	2.8	3.1	93.6	1.0%	2.1%	2.8	2.1
Toys/Games	2.8	2.4	72.3	1.0	2.1	—	—
Motor Oil	2.6	2.6	90.9	2.9	6.8	—	—
Home Care (e.g., tool boxes, leaf bags)	2.3	2.1	76.9	1.9	5.1	—	—
Automotives (e.g., brake fluid, batteries)	2.2	2.3	86.5	2.9	8.1	—	—
OTC Drugs	1.8	0.6	25.8	1.0	3.2	—	—
Light Bulbs	1.8	1.8	83.3	—	—	—	—
Pets/Pet Supplies	1.2	1.2	85.0	—	—	—	—
Antifreeze	1.1	1.2	94.4	1.0	5.6	—	—

Source: Leo J. Shapiro & Assoc.; DSN, November 1987

Customer Response to Hard Lines Traffic Builders

Product Category	Percent of Mentions by Frequent Shoppers at All Stores*	Percent of Shoppers Who Bought a Product They Knew Was On Sale	Mean Ticket of Those Who Bought the Sale Item**
Hair Care/Personal Care Items	59.1%	77.2%	$16
Home Storage (e.g., mirrors, closet organizers)	68.1	70.8	$39
Toys/Games	59.6	74.4	$33
Motor Oil	65.9	78.1	$30
Home Care (e.g., tool boxes, leaf bags)	61.5	70.8	$39
Automotives (e.g., brake fluid, batteries)	73.0	69.0	$30
OTC Drugs	51.6	77.8	$15
Light Bulbs	60.0	63.3	$18
Pets/Pet Suppiies	45.0	85.0	$22
Antifreeze	50.0	83.8	$24

*Shoppers who shopped store at least twice a month
**Could include other items as well as sale items

Source: Leo J. Shapiro & Assoc., DSN, November 1987

MARKETWATCH

COLUMBUS, Ohio — **Nationwise Auto Parts**, the auto parts chain based here, signed a letter of intent late last month to purchase Guarantee Auto Stores, an Indianapolis-based auto parts retailer, for an undisclosed price. Completion of the deal would add Guarantee's 77 stores in Ohio, Indiana, Kentucky and Michigan to Nationwise's 200-store operation which does business in 10 Midwestern and Southern states.

* * *

PHILADELPHIA — **The Pep Boys—Manny Moe & Jack** has adopted a poison pill that any corporate raider would be hard put to swallow. Its anti-takeover measure comes in the form of a distribution to stockholders of a right to buy a share of common stock at $55 for each share of common they now own. The right to purchase would come into play when a raider acquired 20 percent or more of its stock or offered to buy 30 percent or more. Mitchell G. Leibovitz, president of the automotives parts chain, said he knows of no effort to gain control but that the poison pill was merely a standard safeguard. In a letter explaining the move to stockholders, Leibovitz said 35 percent of Fortune 500 companies have adopted such a defense.

* * *

PONTIAC, Mich. — Citing, in part, disappointing results from its Auto Works parts chain, Perry Drug skipped a quarterly dividend for the first time in its history and reported a loss for both the fourth quarter and its 1987 fiscal year. For the year, Perry reported a loss of $7.9 million, compared to profits of $5.9 million, or 59 cents a share, in 1986. Sales rose 12 percent to $726 million from $648 million a year earlier. The loss came to 79 cents a share, of which 42 cents stemmed from operational losses of its three divisions: drug stores, auto parts and health care. Perry declines to report results by division. All a spokesman would say about Auto Works is that it "didn't do as well as we had hoped."

* * *

ST. LOUIS — **Eveready Battery Co.** has developed what it calls the next generation of lithium batteries. The new lithium battery uses a lithium thionyl chloride technology, which the company patented. The batteries can be stored for 10 years or longer, provide more than 30 hours of continuous light, and are half the size and weight of other products, said Gilbert Merritt, director of technical resources at Eveready. And beginning in early 1988, the U.S. Army will begin using the new lithium battery to power radios that direct troop movements. "This technology offers more power per unit volume than any other battery previously used by the military," said Merritt, noting that magnesium batteries can provide only 10 hours of continuous power.

Hair Care, Personal Care Products Draw Promotion-Oriented Shoppers

(Continued from page 59)

standing, and one, hair and personal care items, duplicated its second place finish overall. The biggest loser was home care products, which skidded from third place in 1986 to 15th this year; motor oil gained the most, moving up to 12th place from 20th.

Most hard goods performed slightly better as traffic builders in discount stores than in the market as a whole.

However, the differences were minor in most cases. Only motor oil, automotives, craft items and antifreeze rated significantly higher with discount customers than with shoppers as a whole. Hair and personal care products and over-the-counter drugs more than leveled the equation.

The most remarkable trend suggested by the survey is a far higher percentage of new or infrequent customers visiting hard lines departments.

Overall, the mean ticket of discount shoppers who were aware of a store promotion or ad was $28. Most hard lines products exceeded that figure, indicating the presence of profitable add-on sales. The average customer attracted by a promotion of home care products, for instance, spent $39 in all. The toy shopper spent a mean of $33 and recreational product (including sporting goods) shoppers spent $43 each.

Overall, mean tickets remained steady, a few up, a few down. Home care products was a major loser, however, dropping to $39 from $51 in 1986. Motor oil also seemed to have become more of a destination item, its mean ticket dropping from $37 last year to $30 this year, still a respectable total for basically a 99 cent item.

On the other end of the spectrum is paint, which last year accounted for a mean ticket of $32. This year, that total sank to $28, about the price of two gallons of mid-price paint and a brush or two. Evidently, one could surmise, oil customers linger to pick up a few odds and ends; paint customers can't wait to get home and complete the job.

The most remarkable trend suggested by the survey is a far higher percentage of new or infrequent customers visiting hard lines departments. In 1986, hard goods were purchased almost exclusively by regular customers; last year the reverse was true. Since new customers aware of a promotion are usually attracted by that promotion only, they tend to buy what they came for and get out more often than regular customers.

This may explain a few of the precipitous drops in mean tickets although many hard goods, by their very nature, promote add-on purchases. Motor oil, for example, is often sold in tandem with funnels, oil filters and other automotive products.

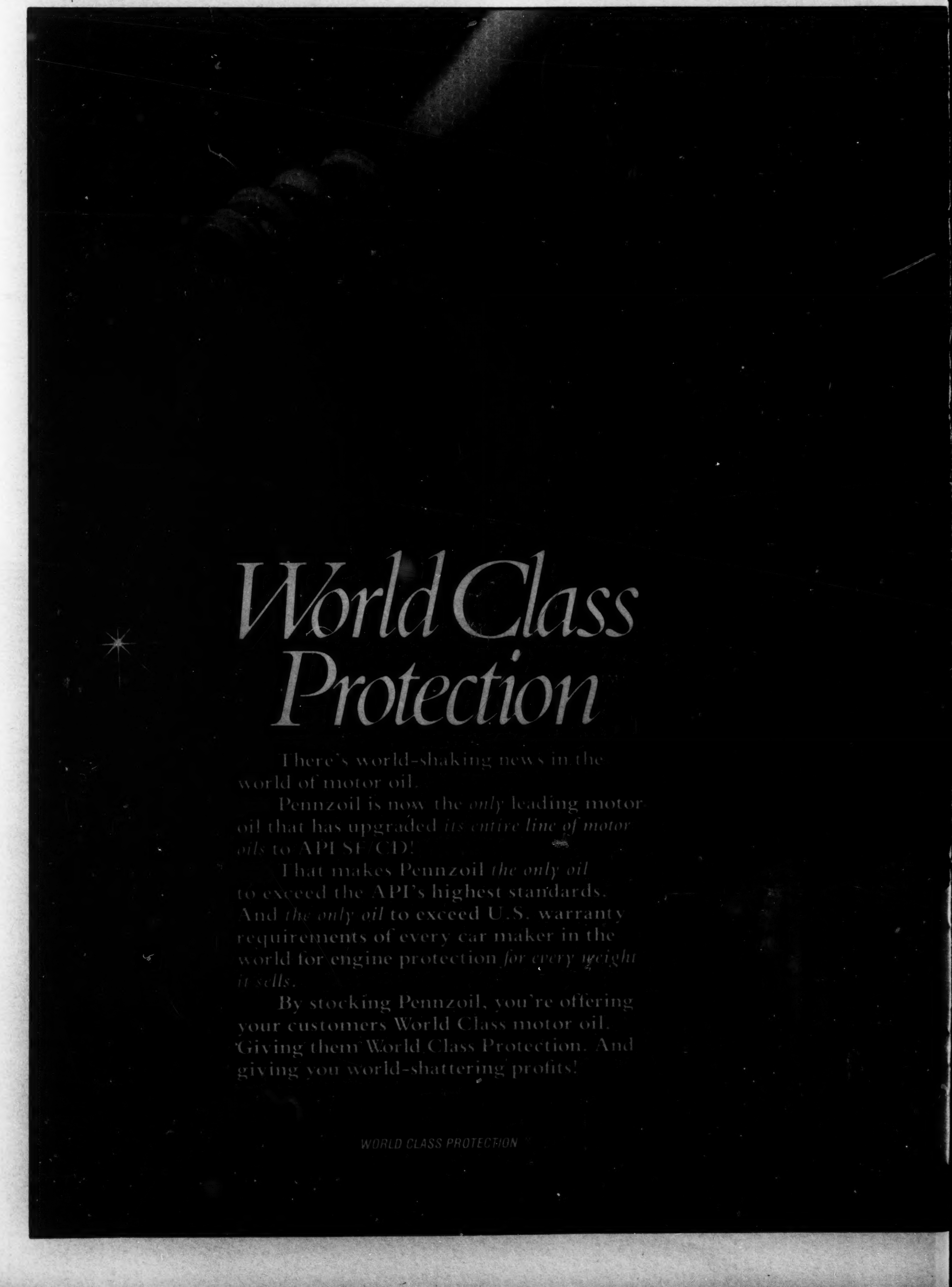
The shift in customer makeup was very pronounced in some areas. In 1986, nearly nine of 10 automotives customers were frequent store shoppers; in '87, the percentage dropped to seven of 10. Just half of antifreeze and hardware shoppers were regular customers, and less paint shoppers were regulars. Most other ratings dipped slightly.

Two categories, craft items (90 percent regular shoppers) and tools (85 percent), ran counter to the trend.

Hard goods customers seem to be very brand loyal. Only six brand names from last year's top 20 made the list again this year, and three of them, Quaker State, Prestone and Fisher Price, were hard goods products.

Overall, hard goods brands like Gum-Out, Black & Decker, Timex, Motorcraft, Colgate, Fram and Maybelline placed high in brand attractiveness to promotion-conscious shoppers.

Fewer consumers shopped for hard goods in response to ads in almost every category compared to the previous year, with the exception of hair care and personal care products. (DSN photo)



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WORLD CLASS PROTECTION

Discount Department Store Sales Take Nose Dive in September

Nationwide DSN Report

Retail sales at discount department stores slipped dramatically in September, falling 9.2 percent from August to $5.14 billion, unadjusted, the U.S. Commerce Department reported last month.

It was the second largest monthly drop among retailing entities in the general merchandise group. The largest monthly drop was recorded by national chain department stores, which reported a sales decline in September of 13.5 percent, to an unadjusted $2.7 billion.

As a group, sales in the general merchandise category fell 9 percent to $12.5 billion, unadjusted, the Commerce Department reported.

Although the monthly drop was substantial, a Commerce Department spokesman told *DSN* that the decline was not unusual for September when sales "have been known" to dip below August's level.

In fact, "August generally outperforms September," said Robert Hayes, chief economist in the research department at K mart. "August is the back-to-school month, not September."

In addition, auto sales were very strong in September, noted Hayes, which "draws away from other purchases."

In September, total retail sales were an unadjusted $124.2 billion. This was down 5.5 percent from August and was also slightly less than 1 percent from September 1986.

Retail sales, excluding autos, were down 4.5 percent in September, to an unadjusted $94.6 billion, but were up 4.7 percent from last September.

Total retail sales for the first nine months of 1987, including automobiles, were an unadjusted $1.1 trillion, up 10 percent from the nine-month period in 1986.

Excluding automobiles, retail sales totaled $839.8 billion, up 4.5 percent from the same time in 1986.

Preliminary year-end retail sales figures will not be available until next month.

The nine-month total for discount department stores was $45 billion. There is no comparison with 1986 because the Commerce Department only broke out discount stores from the general merchandise category last January.

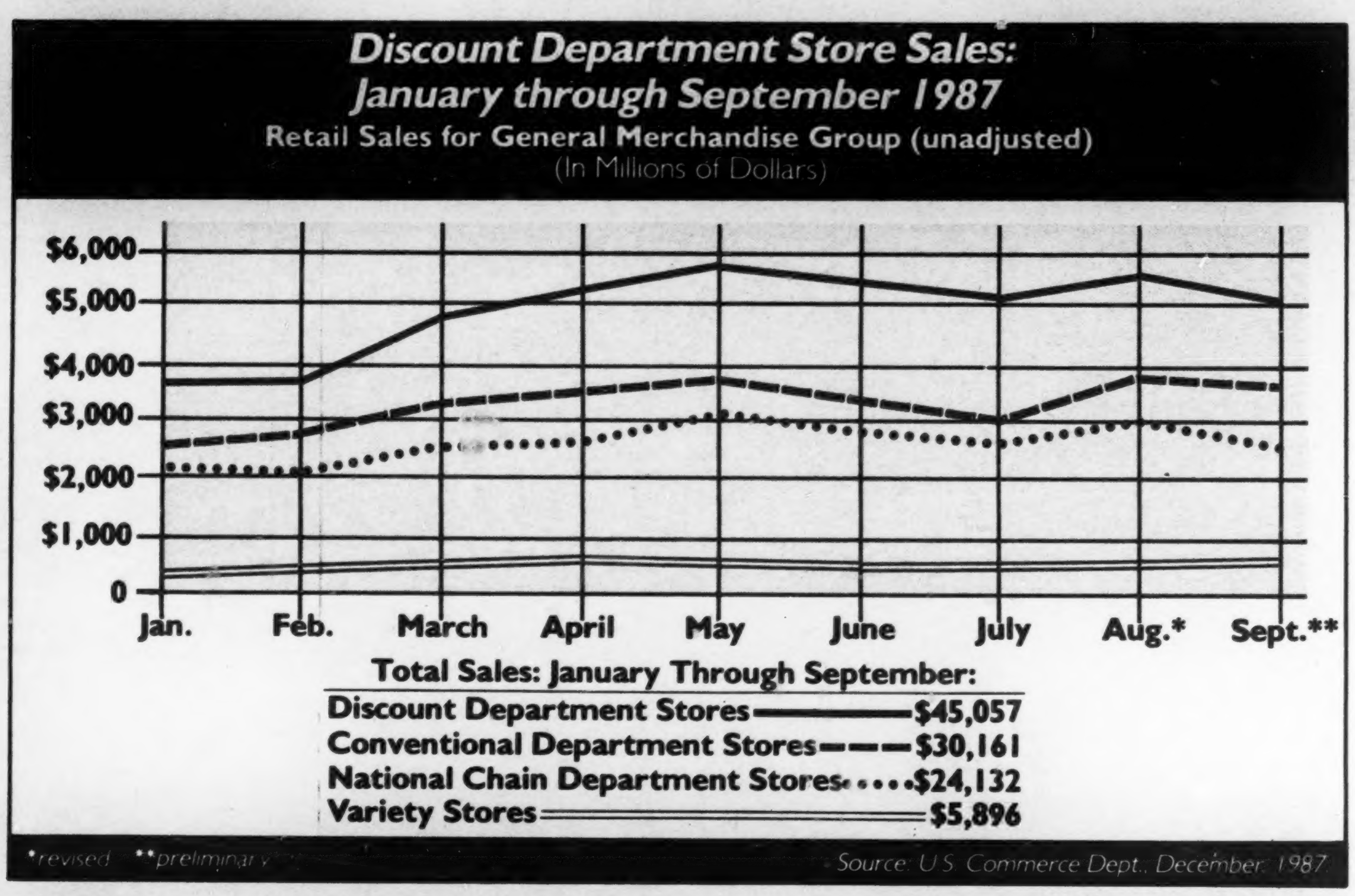
For the nine months, all general merchandise operations—conventional department stores, discount department stores, national chain department stores, variety stores and miscellaneous general merchandise stores—recorded an unadjusted $108.25 billion in retail sales. This total reflects a 5.3 percent increase over the same nine-month period in 1986.

Sales at conventional department stores totaled $30.16 billion, unadjusted, for nine months, and $3.65 billion for September, down 5.3 percent from August.

Variety stores sales for the nine months were an unadjusted $5.89 billion and $640 million for September, down 9 percent from August.

Miscellaneous general merchandise sales were $10.10 billion, unadjusted, for the nine months and $1.15 billion for September, down 7.7 percent from August.

National chain department stores recorded a nine-month sales total of $24.13 billion, unadjusted.


Discount Department Store Sales: January through September 1987

Retail Sales for General Merchandise Group (unadjusted)

(In Millions of Dollars)

*revised **preliminary

Source: U.S. Commerce Dept., December 1987

Pic 'N' Save Reports Sales Increase

CARSON, Calif. — Pic 'N' Save, the 125-unit closeout retailer based here, reported November sales of $44.7 million, a 29 percent increase from the year-earlier month. Year-to-date sales for the West Coast-based closeout chain were up 17 percent to $292.6 million compared to the year-earlier 11-month period.

Comparable store sales rose 10 percent in November and 5 percent for the 11-month period. Pic 'N' Save opened four stores in November in Canoga Park and Chatsworth, Calif., and Pasadena and North Oaks, Texas. For the first 11 months, the chain opened 24 new stores, including one replacement unit. It opened one store in December, bringing the chainwide total to 125.

"Sales during November of the prior year were adversely impacted in many California markets by the liquidation sales of Gemco discount stores," said Lewis B. Merrifield III, president and chief executive officer. "In November of 1987, most of these locations were operated as Target discount stores with aggressive promotional programs."

"In view of the fact that Pic 'N' Save's improved sales trends in November of 1987 were experienced in all markets, including those areas not influenced by the Gemco liquidation of last year, we believe we now are seeing positive results from our store reformat work and merchandising programs," Merrifield said.

December sales were not available yet, but Merrifield indicated that the chain did not anticipate that this year's holiday season sales would match the gains experienced in November.

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Discounters Face '88 Gingerly After Modest December Sales

(Continued from page 1)

time. Others, however, said sales and further markdowns will be the name of the game during early 1988.

According to most full-line discounters contacted, hard goods—including consumer electronics, sporting goods and records and tapes—moved better than soft goods. Many said men's wear was stronger than women's wear, and accessories across the board was a strong category.

A couple of discounters said toy sales weren't up to par because of the lack of a hot new toy, and a few pointed to less-than-expected sales of televisions and stereos—big ticket items that could have been affected by consumer caution over the October stock market plunge and the sluggish economy in general.

Analysts and other industry observers said that while December sales results at most discounters were according to plan or even slightly above plan, those increases probably came at the expense of profits.

Margins Under Pressure

"Margins came under pressure as the month [December] progressed," said Jeffrey Edelman, retail analyst at Drexel Burnham. "We expect fourth quarter profits to be flat at many discounters," he said, adding "just how flat depends on just how much markdowns were stepped-up."

Most analysts predict modest sales gains at best for the discount industry in general through the first half of 1988. The very tough first half of 1988 will be more like the tougher second half of 1987 than the better first half of 1987. Hence, sales gains compared to a year ago during the first six months of 1988 will be nominal, analysts and other observers said.

"Most discount stores during the first half of the year will see 3 percent to 5 percent comp store sales gains at best," said Kurt Barnard, president of Retail Marketing Report and Barnard Enterprises, New York City-based retail consultants. "The Christmas period was quite unspectacular, and sales were below expectations of many retailers. And we see absolutely no change in the first half of 1988. There will be a continuing consumer conservatism and resistance due in part to consumers' earnings barely keeping pace with inflation during much of 1988."

One of several discounters that saw holiday sales come in below expectations was Zayre Corp. An executive at Zayre told *DSN*, "Christmas sales were softer than we would have liked. We're somewhat disappointed."

The Framingham, Mass.-based discounter reported December sales for the discount division (not including TJX Cos.) up 6.9 percent, with comparable store sales up a mere 0.2 percent.

The executive said that the Zayre customer has always been a late Christmas shopper, but that the customer was even later than usual this year. He added that instituting major storewide sales to clear out inventories is "an issue currently being addressed."

He also said, echoing many other discounters, that Zayre is approaching 1988 cautiously. "Consumer fears continue. And for the discount customer it's not just 'What kind of raise will I be getting this year?' It's more like 'Will I have my job?' More than other shoppers, the discount shopper feels the potential impact of an economic downturn."

At K mart, a spokesman said, "We're satisfied with the Christmas season." The Troy, Mich., retailer posted December sales gains of 8 percent, with a same store sales increase of 5.7 percent for the month (sales for the 48 weeks ended Dec. 30 were $24.15 billion, up 7.7 percent from a year ago; comp store sales increase for the 48-week period was 4.2 percent). The discounter had 2,108 units in operation at year-end, compared to 2,087 at the end of 1986.

The spokesman added that consumer electronics and appliances were particularly good, and that women's was stronger than men's wear.

A Target spokesman said, "Sales were better than planned," but added that "there were no real surprises." He also pointed out that comp store increases are "in many cases real increases, because—at least at Target—a lot of products were sold at the same or very close to the same price as last Christmas."

Target, based in Minneapolis, posted a 33 percent December sales gain, with a 5 percent comp store increase. The spokesman said Target had 317 units in operation as of year-end, compared to 246 a year ago. Target's fiscal year closes at the end of the month. The spokesman added that the traditional hard lines, including consumer electronics, toys, and records and tapes, were strong sellers. In apparel, accessories as well as fleece, novelty prints and fine jewelry did well.

A spokesman at Wal-Mart said, "sales were real good," with the discounter posting a 34 percent December jump and a 12 percent same store sales rise (for the 11 months ended Dec. 31, sales also jumped 34 percent to $14.8 billion; comp store gains for the 11 months were 11 percent).

The Bentonville, Ark.-based company said it had 1,114 Wal-Mart stores and 84 Sam's Wholesale Clubs in operation as of Dec. 31, compared with 974 Wal-Marts and 49 Sam's at year-end 1986.

An Encouraging December

Gold Circle, Worthington, Ohio, had an "encouraging" December, according to Kathy Schmelzer, vice president of public affairs. "Sales were particularly strong in the Northern regions."

A spokesman for parent, Federated Department Stores, said Gold Circle posted December sales increases of 2.1 percent, with no new units opened during the year.

At Rocky Hill, Conn.-based Ames, sales for the five weeks ended Jan. 2 rose 8.7 percent; 5.6 percent on a comparable store basis.

"That's a good increase for a difficult season, but it was under plan for the month for us," said spokeswoman Catherin Leonard.

However, she said that the sales gains were not buoyed by markdowns. "Not only was promotional activity not above plan, but it was not above last year either."

Leonard said inventories are in good shape, with no perishable seasonal merchandise that has to be disposed of. However, she said television, stereo, VCR, microwave, calculator and camera sales were disappointing, and that bicycles "saved" the toy category. "Action figures for young boys fell apart," she added.

For the new year, Ames has a couple of fall-back plans that will greatly modify store unit growth if the economy takes a sharp turn for the worse, Leonard said. "We're remaining flexible in terms of growth," she said.

Ken Thrasher, chief financial officer at Fred Meyer, the Portland, Ore.-based superstore chain, said, "Sales were a little above plan. Our business is basics, and basics weren't impacted that much. Non-food did better than food, and hard goods did better than soft."

However, Thrasher added that consumer concerns could deepen during the year over fears of possible tax increases and higher interest rates.

At Hills, a spokesman said comp store increases, seasonally adjusted through Jan. 2, were up 10 percent.

While inventories are in good shape and the Canton, Mass.-based chain is not faced with big markdowns, the spokesman said Hills is approaching the first half of 1988 "with a great deal of caution," adding that the consumer is in a very conservative mode right now.

Other December sales results for full-line discount retailers were: Jamesway, up 13 percent, with a 5 percent store-for-store increase; Bradlees up 10 percent, 5 percent comp store gain, and Pic 'N' Save (unaudited sales) up 28 percent, comp stores up 8 percent.

David Dash, a senior vice president at Marshalls, the largest off-price apparel chain in the nation, said, "We're very pleased with Christmas results. We had healthy double-digit increases."

Dash added that better merchandise did exceptionally well, compared to lower priced basics. He also said men's wear was stronger than women's, and the toughest area was junior sportswear, a category that began a marked slowdown in sales at many off-pricers—as well as at department and specialty stores—as early as September.

Dash said that misses was stronger, and that infant and toddler girls', along with accessories across the board, was very strong.

We're Well Positioned

"We're well positioned compared to a year ago, with an increased focus on the better part of the business," he said.

Ben Cammarata, president of TJX Cos., said that Christmas sales at T.J. Maxx, the country's second largest off-pricer, "went well," with the chain posting comp store sales increases for the month of over 7 percent.

"We also didn't promote," Cammarata said. "We had good gross profits as well."

With total inventories down 15 percent over last year at this time, Cammarata said, "We're optimistic about the first half of the year. There'll be a lot of good buying opportunities. We have a lot of open-to-buy right now."

Many of the off-price apparel chains did far better than their specialty apparel chain cousins—The Limited and The Charming Shops, among others, posted comp store sales declines for December.

Results at some of the hard lines specialty chains were: Toys "R" Us, up 30.2 percent for the eight-week Christmas season, comp stores up 12.3 percent; Child World, up 20.7 percent for the eight-week season, comp stores up 8.5 percent; and Circuit City Stores, up 28 percent for the month, with a 4 percent comp store increase.

As far as the first half of 1988 is concerned, the only possible bright spot, as pointed out by Ed Johnson, security analyst and director of Johnson Redbook Service, is that some consumers will have a bit more disposable income in the second quarter from tax refunds.

Grand Auto Sold for $16 per Share Cash

(Continued from page 3)

fer. Paccar came to the board on its own last month, said Bruce Levitin, Grand vice president for administration.

When Paccar acquired Al's, its president, Ron Hollyoak became a Paccar vp. He will oversee Grand once the deal is closed.

The joint acquisition agreement will be submitted to stockholders for approval at a special meeting to be held soon. Approval is expected.

In 1986, Paccar earned $54.3 million on sales of $1.8 billion. For the nine months ended Sept. 30, 1987, Paccar already had earned $77 million on sales of $1.75 billion.

Grand Auto lost $136,000 from operations during its fiscal year ended Jan. 31, 1987, compared to net operating profits of $2.6 million the previous year. Sales in fiscal 1987 dipped to $165.8 million from $167.7 million in fiscal 1986. In its third quarter ended Oct. 31, 1987, it lost $3.4 million on top of a $19,000 loss during the first six months of fiscal 1988.

Grand opened four new stores and closed 10 older units for a net decline to 107 from 113 last year. It plans to open eight units in 1988.

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NEWS

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Vol. 27, No. 2 Jan. 18, 1988

PACE Axes Original Club, Converts Site into Third DC

(Continued from page 3)

Steinbrueck said the company expects the redistribution operation to occupy approximately 50,000 square feet, or about 50 percent of the current facility's space. He said the company is looking at possible alternative uses for the remaining space. One consideration would allow the company to store some of its central forms and supplies at the facility.

PACE also operates redistribution centers for both the Washington, D.C./Baltimore and Los Angeles area markets. However, Steinbrueck said at these locations the redistribution centers are housed along with a warehouse location, and both facilities also have buying offices.

PACE ceo and chairman Henry Haimsohn said major markets are best served by the addition of a redistribution facility. "Redistribution centers allow PACE to buy optimum quantities of high quality merchandise that are quickly parceled out to area warehouses."

Haimsohn also said the company expects sales to surpass the $1 billion mark in 1988, as the company looks to open three additional sites during the year. Two Southern California locations are planned and a membership club will also be opened in Charlotte, N.C.

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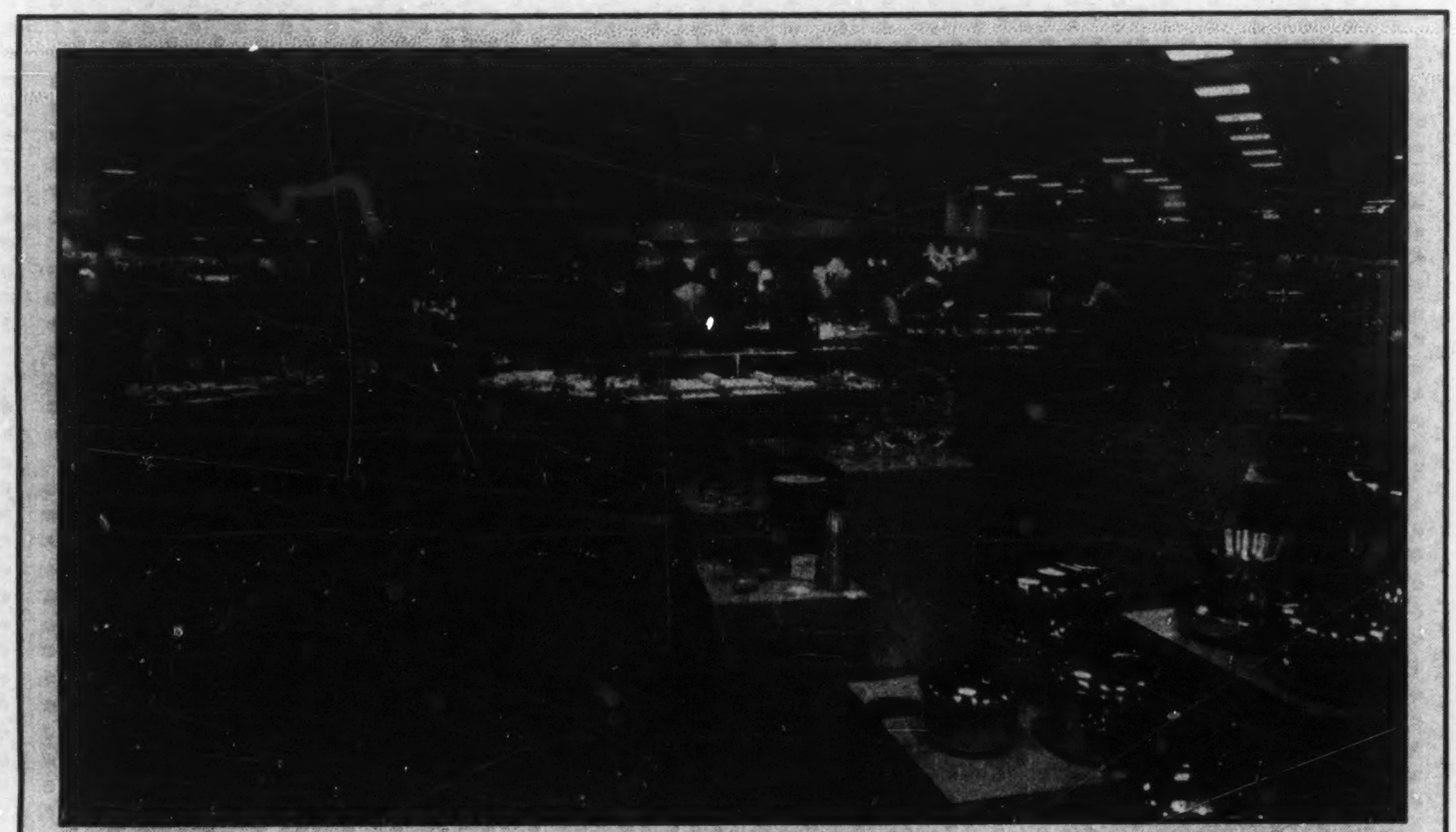


L. Luria & Son's new prototype, which highlights jewelry in the center of the racetrack layout, is expected to help power the cataloger's sales to $350 million by the end of the decade.

Star of Troubled Catalog Industry

Luria Eyes 14% Growth in '88

NEW YORK — L. Luria & Son expects its new showroom prototype, unveiled last fall, to help propel sales this year to about $234 million, and to about $350 million by the end of the decade.

The cataloger, which has all of its 43 showrooms in Florida, will open at least four new stores in the Sunshine State this year, two in Tampa, where it currently has three, and two in the Greater Miami market, already home to eight units.

Chairman Leonard Luria told an American Stock Exchange Club meeting here in

(Continued on page 47)

Sports Club May Open by 3rd Qtr.

Spin-Off Puts K mart In Sport Specialty Arena

By Richard C. Halverson

SAN ANTONIO, Texas — In another thrust into specialty retailing, K mart is launching a four-unit test of sporting goods membership warehouse clubs.

The new venture, Sports Club of America, will be a division of Builders Square, K mart's home center chain, *DSN* has learned, and the first store could be opened early in the second half of 1988.

Thomas J. Klimback, formerly vice president of development for Builders Square, is chief operating officer of Sports Club. Builders Square and Sports Club will operate out of separate offices in San Antonio.

Frank Denny Jr., son of Builders Square founder Frank Denny and formerly product development manager for Builders Square, is the general merchandise manager, Klimback said.

Charles White, formerly head of sports sales at K mart's Troy, Mich., headquarters, is senior vice president for operations of the new venture. K mart has also transferred Gary Miller to San Antonio as senior buyer for hunting, fishing and camping equipment.

K mart, already the dominant sporting goods retailer in the U.S. through its full-line discount stores, is the latest entrant into the booming sports warehouse market. Others include SportMart, Niles, Mich.; Sports Authority, Fort Lauderdale, Fla.; All American SportsClub, Los Angeles; and other chains, mostly in the Southeast. It enters the specialty market just as industry analysts project double digit sales increases.

Most of the new entrants in the warehouse field charge no membership fees, including Sports Authority and SportMart, but K mart's Sports Club will charge as yet undetermined membership fees.

The warehouse venture allows K mart to apply its sport-

(Continued on page 47)

Retail Chains Back in Play As Dart Courts Stop & Shop

LANDOVER, Md. — The Dart Group has offered to buy Bradlees parent, Stop & Shop—provided the Boston-based retailer surrenders without a fight.

After the market closed on Jan. 20, Dart offered $30 a share (when the stock was trading for $26) for the balance of 27.9 million shares outstanding. But, the offer was contingent on the board's giving up two of its most powerful anti-takeover defenses:

- Its poison pill provision;
- The protection of Massachusetts anti-takeover laws.

Earlier in the month, the Dart Group put Stop & Shop in play by disclosing to the Boston-based concern that it is seeking antitrust clearance to acquire an additional $15 million worth of the firm's shares.

Dart president Robert Haft said his company already owns 3 percent. The takeover price would be $840 million.

Dart's bid for Stop & Shop represents its fifth attempt to take over a retail chain. Previous unsuccessful takeover targets include Safeway, Supermarkets General and Dayton Hudson, parent of Target.

Although it lost some $60 million on its attempt to buy Dayton Hudson, the Dart Group has profited handsomely in its previous raids.

Haft declined to comment on published reports that the Dart Group is sitting on $400 million in cash that could be used to finance a takeover.

Stop & Shop's 114 supermarkets and its 171 Bradlees stores would be "a natural fit" with the Crown Books and Trak Auto stores of the Dart Group, Haft told *DSN*.

"We're third generation retailers, and we're dedicated to being retailers," said Haft, son of Dart Group chairman Herbert Haft.

Stop & Shop officials were unavailable for comment on

(Continued on page 47)

Wal-Mart Launches World's Largest Private Satellite Communication System

By Arthur Markowitz

BENTONVILLE, Ark. — Wal-Mart has launched the world's largest private integrated satellite communication network, providing two-way voice and data and one-way video transmission between its headquarters here and over 1,200 store, regional office and distribution center locations.

The discounter's precedent-setting network is expected to be cloned in whole or part by other retailers who are also looking to provide better customer service while significantly reducing communication costs.

The Ku-band network provides real-time, round-the-clock transmission, with voice and computer data flowing between Bentonville and all locations, while video signals are broadcast only from headquarters to the stores and other facilities.

Hughes Network Systems provided the equipment, a "hub station" at headquarters consisting of a 9-meter antenna dish and "personal earth stations" (PES) with smaller 1.8-meter dishes at the stores and warehouses. The stores in Florida use a slightly larger 2.4-meter dish as these units are at

(Continued on page 48)

NRMA Gold Medal Humbles Walton

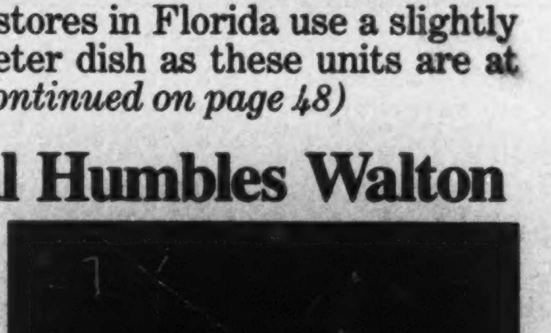
By Peter Hisey

NEW YORK — Sam Walton, founder, chairman and chief executive officer of Wal-Mart Stores of Bentonville, Ark., was awarded the prestigious National Retail Merchants Association's Gold Medal at an industry luncheon sponsored by the NRMA.

Sumner Feldberg, chairman of Zayre Corp.'s executive committee and last year's Gold Medal recipient, made the presentation.

Introduced as "a country

(Continued on page 48)



Sam Walton at the NRMA luncheon: 'The reason for our success is our people and the way they're treated.' (DSN photo)

Big & Tall Fashion Spurs Plus Sales

Photo Price Hikes Develop

Calif. Paints Reformulated

Toy Chains Cheer Holiday Sales

MARKETWATCH

French Hypermarket to Open in U.S.

PARIS — Auchan, a chain of 51 hypermarkets, plans to open a unit in Houston later this year to become the third French company running such a store in the United States. Auchan will own and operate the 120,000-square-foot unit. Carrefour, which pioneered the hypermarket concept, has rescheduled the opening of its first U.S. store, a 330,000-square-foot Philadelphia unit, to late this month or early in March due to construction delays. Euromarche was the first French hypermarket chain to enter the U.S. market when it opened a 250,000-square-foot Biggs in Cincinnati two years ago in a joint venture with a French bank and Super Valu, a U.S. food wholesaler.

Trump Goes After Federated Dept. Stores

CINCINNATI — Donald Trump, the New York City real estate mogul, is seeking to acquire at least $15 million worth of outstanding stock of Federated Department Stores. In response, the $10.5 billion parent of discounter Gold Circle has ceased "certain real estate ventures" with Trump. His actions contain "all the evils of greenmail," Federated told Trump shortly after Trump's intentions became known. It is not known whether Trump currently owns any of the retailer's stock. Trump spokeswoman Norma Forderer said that Trump would not comment on his business activities with Federated, which she described as being "currently on the back burner."

Bradlees Names Granoff President, CEO

BRAINTREE, Mass. — George Granoff, executive vice president of Bradlees, was named president and chief executive officer last month. Granoff succeeds Harry Kohn Jr., who resigned last summer. The executive vp spot at the 171-unit discounter has been eliminated.

Ward on the Auction Block

NEW YORK — The Mobil Oil Corp. said it may sell its Montgomery Ward subsidiary since "some sizeable companies" are interested in acquiring it. A Mobil spokeswoman declined to name the potential buyers, commenting only that Mobil feels "it is incumbent on us to determine the extent of this interest." She added that Ward's management "endorses this activity and is participating in it." The 315-unit, Chicago-based retailer said "it will cooperate with all potential investors and is also interested in becoming an investor in Montgomery Ward."

Sears Discovers Wal-Mart

NEW YORK — Having penetrated K mart with its Discover credit card, Sears, Roebuck & Co. has gotten its foot in the Wal-Mart door. Wal-Mart's new Hypermarket USA, which opened Dec. 28 in the Dallas suburb of Garland, is accepting the Discover card as a test. Last November, K mart began accepting the Discover card, joining Marshalls, Ames, Jamesway, Target, Venture and Zayre among discounters that accept the card.

FOR THE RECORD

A continuation headline regarding action being taken by the New Jersey Division of Consumer Affairs against Bradlees and Sears, Roebuck & Co., should have said the division is seeking fines against both retailers on charges of failing to keep adequate stocks of advertised goods. A court date was set Jan. 28 to hear the division's complaints against the retailers. Moreover, the story should have said that Bradlees signed a consent decree last February, agreeing to keep adequate stocks of advertised goods on hand.

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Price Club Creates New Division To Pursue Entrepreneurial Concepts

By Pamela Krein

SAN DIEGO — Price Club, the pioneering membership warehouse club chain, has created a new division to aggressively pursue new entrepreneurial concepts and oversee manufacturing and specialty operations.

Operating as a separate wing under Price Co., the new division—Price Club Ind.—oversees the company's photo processing, ground meat packaging, automotive services, optical centers and pharmacy. It will also be charged with the responsibility of searching out "new business opportunities," said company president Robert Price at the annual shareholders meeting last month.

Robert Price, son of company founder Sol Price, said one of the new ventures for the division will be a lens laboratory to service the optical centers, which are now in 11 warehouses. The company currently operates 37 warehouses in the U.S. and jointly operates two warehouses with Steinberg Inc. in Canada.

"There are a number of new business opportunities," Price Club Ind. will pursue, Price said, including some other manufacturing avenues, the nature of which the company is not willing to disclose at the present time.

However, Price did tell shareholders the company felt it was important to break out a separate and full-time division for this pursuit and not just concentrate on short-term goals.

Heading up Price Club Ind. is Jeff Graflund, as the division's president and ceo. Graflund formerly worked with the company's real estate division. Mitchell Lynn, former vp of finance for Price Co., becomes the divisional executive vice president and chief financial officer for Price Club Ind.

Also at the meeting, Price reviewed the company's first quarter, ended Dec. 20, and said the warehouse club was "reasonably happy with the sales," which rose 24 percent to $1.28 billion and created net earnings of $30.9 million.

However, Price said, "personally I would have hoped for a little more business," but admitted, "we are never satisfied."

Price said the first quarter same store sales increase of 2 percent was not as high as the company expected. There were several factors contributing to the low increase, he said, primarily the opening of new warehouses near existing sites—which pulled away some business from the older units—stiff competition and a softening of the economy.

While Price said the company faces competition from other membership warehousers—against which he said Price Club has been able to hold "our own very well"—the executive said he also sees competition stemming from similar operations such as HomeClub and the All American Sports Club. However, Price said the real competitors are "Sears, Ralphs [grocery chain] and those types of conventional merchants."

Price said the company will continue its efforts at developing the Northeastern corridor, noting that the company is currently looking at another site in New York.

Huntley Urges Change to Catalogers

CHICAGO — The catalog showroom industry will need to undergo a metamorphosis in the years ahead if it is to continue as a vital retail channel.

Robert Huntley, chairman and chief executive officer of Best Products, asserted the need for change in the catalog industry during a speech delivered to an audience of showroom operators and manufacturers during the National Association of Catalog Showroom Merchandisers banquet last month.

The proliferation of specialty chain operators will make the job of catalogers more challenging as consumers are drawn to these service-oriented, high ambience alternatives, Huntley said.

At the same time, he acknowledged that catalogers were instrumental in creating the current "hotly competitive scene" that now exists by challenging the "sheltered prices and stagnant offerings," of the '50s and '60s.

Huntley admitted he had no simple solutions to competition, but offered some advice. "Change is imperative. But there is no single formula for change or success. We are evolving in different ways, something I believe is very positive for the industry and retailing in general," Huntley said.

Examples of better business practices among catalogers included: the creation of new display techniques, improved in-stock positions, broader assortments, enhanced jewelry operations, new store designs, upgraded data processing and management information systems, greater emphasis on convenience and improved self-service techniques.

During the banquet the NACSM also presented awards to three industry veterans.

Charles Polep, president of Holyoke, Mass.-based Paysaver catalog showroom, was the recipient of the Industry Leadership award.

Irving Miller, formerly with the Welby Clock division of Elgin National Industries, was presented the Bettye J. Lewis award.

Outgoing chairman, Fred P. Gattas Jr. of Memphis-based Fred P. Gattas Co., decided to create what he called a Chairman of the Board award which he bestowed upon Doug Moss, vice president at Associated Mills.

Rein Replaces Balmuth at Venture

ST. LOUIS, Mo. — After a year, Venture has named a replacement for Marc I. Balmuth, who left the company last February to become president of Caldor.

Caldor is Venture's sister discount chain in the The May Department Stores Company family.

Filling Balmuth's slot as executive vice president is Richard Rein, who will be in charge of hard lines merchandising and report to president and chief executive officer Julian M. Seeherman. Rein joined Venture from Macy's, California, where he served as senior vice president and general merchandise manager.

Filling another long-vacant merchandising position, Venture appointed Maxine Clark as executive vice president of soft lines. Clark came to Venture in 1980 as vice president, marketing, from May's corporate headquarters, where she was director of merchandise development. Most recently, she served as vice president, general merchandise manager, Lerner. Clark also reports to Seeherman.

Venture operates 71 stores in seven Midwestern states. Sales in 1986 were $1.1 billion.

DSN's Smith Promoted to Midwest District Manager

NEW YORK — John Failla, *DSN's* national sales manager, announced the promotion of Bruce Smith, 29, to the position of Midwest district manager.

Smith, who joined *DSN* two and a half years ago as a Midwest sales representative, is now responsible for managing all of *DSN's* business out of its Chicago district office.

Prior to joining *DSN*, Smith was a field advertising representative for Procter & Gamble, responsible for new product promotion. He is a graduate of Denison University, where he earned a BA degree.

DSN INSIGHTS

TOY CHAIN CENSUS

Toys 'R' Us racked up a 30% holiday season sales gain.

Avon, Mass.-based Child World (above) reported a 21% gain in Christmas sales.

Toy specialty chains like Children's Palace, a subsidary of Child World, generally performed better than other toy retailers in the past year. (DSN photos)

Leading Toy Chains Cheer Holiday Season Sales Gains

Nationwide DSN Report

The nation's leading toy specialty chains found surprisingly strong sales gains under their Christmas trees as the absence of a superhot toy product and the prospect of a nationwide recession failed to temper consumers' toy appetites this holiday season.

Based on holiday sales gains at the leading toy chains, it appears that most consumers could not refuse to buy their children what they wanted for Christmas, despite the many gloomy economic forecasts.

Toy chains fared better than most other retailers and even better than they expected for Christmas 1987.

Interestingly, the specialty chains actually benefited from the lack of su-

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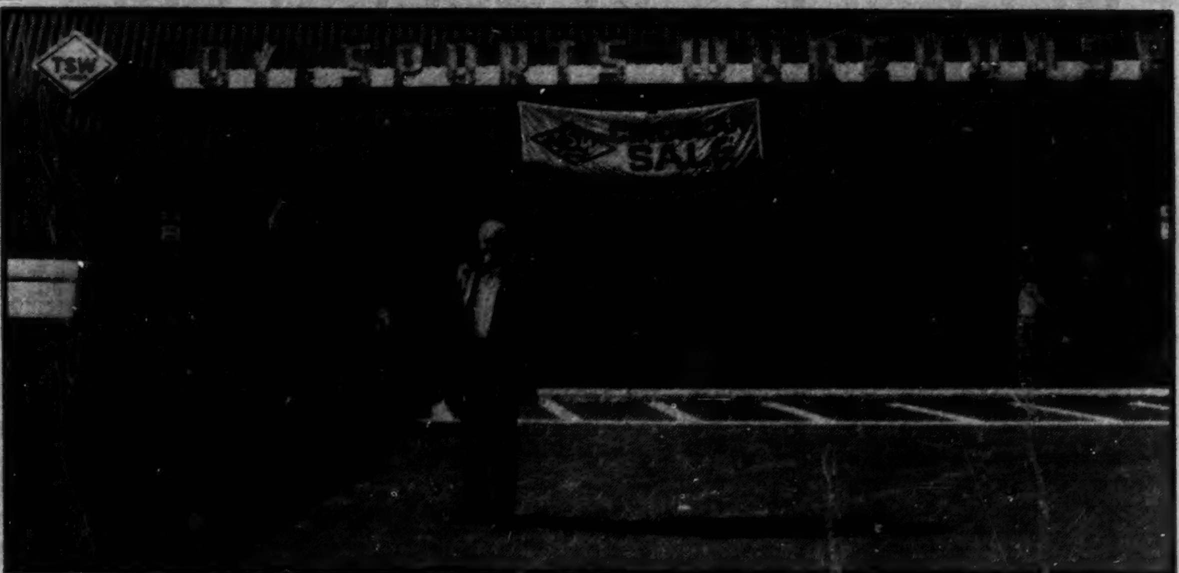
Toy & Sports Warehouse Back on Track 38



William Langus, Toy & Sports Warehouse, White Plains, N.Y.

New Toys Reflect CE Influence 43

Leading Toy Chains Cheer Sales Gains During Holiday Season

(Continued from page 37)

perstar toys at Christmas because their generally wider selections drew customers who were unsure of what to buy. Also, the absence of heavy price competition on a selected few items at Christmas helped toy specialty chains avoid low margins.

Discounters and general merchandise chains generally benefit more from the popularity of one or two super-selling toys. Most of these retailers reported lackluster toy sales in December.

However, discounters and general merchandise chains do not have as much at stake as toy retailers. Toy Manufacturers of America, the New York-based toy makers association, said that holiday sales account for 60 percent of annual sales for most toy-only retailers while the Christmas season generally accounts for about 25 percent of mass merchandisers' and department stores' sales.

Here's how some of the leading public toy retailers fared:

- Toys "R" Us chalked up another year of market share gains. Montgomery Securities, a San Francisco investment firm, estimated that Toys "R" Us' share of the U.S. toy market grew to 20 percent in 1987, from 17.5 percent in 1986. In some metro areas, Toys "R" Us has a market share of as much as 50 percent, the firm reported.

The Rochelle Park, N.J., specialty retailer reported a 30.2 percent jump in sales to $1.36 billion from the $1.05 billion during the 8-week holiday selling season (Nov. 2 to Dec. 27) last year.

For the 11 months ended Dec. 27, Toys "R" Us corporate sales increased to $2.95 billion, up 27.7 percent from the $2.31 billion generated last year during that span.

Domestic toy store sales, excluding revenues from the chain's Kids "R" Us children's apparel subsidiary, rose 12.3 percent for the holiday season and 9.6 percent for the 11-month period.

Christmas sales also benefited from a build-up of inventory earlier in the year, according to the investment firm's report.

The strength of the toy giant can be illustrated by looking back three years at the minimal impact felt by the chain during another difficult toy year, Christmas 1984.

According to the report by Montgomery Securities, Toys "R" Us inventories were 51 percent above the year-earlier level at end of 1984, but gross margins declined only 0.3 percentage points in the following quarter.

This reflects the chain's ability to weather slow periods without resorting to dramatic markdowns.

Also, it has been indicated by several published reports that the chain's sheer size has helped it forge favorable trade terms with toy manufacturers who will buy back unpopular products.

The installation of a new electronic scanning cash register system chainwide also influenced sales by reducing checkout speed by more than 30 percent, the company said.

- The second largest U.S. toy retailer, Avon, Mass.-based Child World, and the fourth largest, Philadelphia-based Lionel Leisure, also fared well in December.

Child World reported a 20.7 percent jump in net sales for the eight-week Christmas season ended Dec. 26 to $363.0 million from $300.8 million last year. Comparable store sales for the eight-week period increased 8.5 percent compared to the same period last year.

Net sales for the 11-month period ended Dec. 26 increased 19.4 percent to $723.8 million, from net sales of $606.1 million during that same period last year. Comparable store sales for the 11 months increased 8 percent.

- Lionel Leisure reported a 22.4 percent increase in sales for the 8-week Christmas selling season, ended Dec. 26, to $174.1 million from $142.2 million for the comparable holiday period last year.

For the 11 months ended Dec. 26, Lionel's sales jumped 21.2 percent to $327.2 million from $270.0 million for the same period last year.

Same store sales for the Christmas selling season showed a 6.6 percent gain while the company posted a 4.5 percent gain for the 11 months ended Dec. 26.

Top Toy Specialty Chains

Chain	Sales (In Millions) 1986	Sales (In Millions) 1985	Percent Change	Sales (In Millions) 1984	Number of Stores 1988[1]	Number of Stores 1987	Number of Stores 1986	Average Store Size (In Sq. Ft.)	Total Square Footage (1987) (In Thousands)
Toys "R" Us (Rochelle Park, N.J.)	$2,270	$1,841	23%	$1,583	353	295	246	46,000	13,570
Child World (Avon, Mass.)	629	513	23	436	149	134	119	36,000	4,824
Kay-Bee (Lee, Mass.)	487	401	21	347	694	639	584	3,500	2,236.5
Lionel Leisure (Philadelphia, Pa.)	283	246	15	225	80	65	52	35,000	2,275
Greenman Bros.[2] (Farmingdale, N.Y.)	218	173	26	117	NA	341	304	3,500	1,193.5
K&K Toys (Norfolk, Va.)	50	43	16	33[3]	112	104	96	3,000	312
Toys Plus (St. Charles, Mo.)	27	18	50	13	NA	34	25	10,500	357
Karl's Toys (Los Angeles, Calif.)	25	18	39	18	30	26	24	5,500	143
Toy King/Toys & Gifts Outlet (Orlando, Fla.)	15	19	21	30	54	54	58	3,000	162
Hobby Center Toys (Holland, Ohio)	12	12	0	11	27	26	27	2,400	62.4
Toy & Sports Warehouse (White Plains, N.Y.)	11	9	22	8	7	5	5	16,500	82.5

[1] *projected*
[2] *Includes Playland, Playworld and Circus World units.*
[3] *estimate*
NA-not available

Source: DSN research

Toy Specialist Back on Track Again After Chapter 11 Reorganization

By Josephine Fiamingo

WHITE PLAINS, N.Y. — The five-store Toy & Sports Warehouse chain, which was one of the many toy retailers that suffered during the video game boom in 1982, is back on track and ready for expansion.

Just before the downfall which caused the chain's volume to drop $3 million from October through December 1982, the then 13-store chain was riding high with expansion plans to have 25 stores in the next three years financed through a stock issue raising $2.2 million.

However, after its toy business fell off 27 percent to $11 million from $14 million, the chain could not meet its obligations for early 1983 and had to file for Chapter 11 bankruptcy. It sold eight of its stores and a plan for repayment of debts was confirmed in 1984.

"We have come a long way since then," said William Langus, president and founder of the 36-year-old chain. TSW has been reporting sales increases over the last three years. Sales jumped 16 percent in the last fiscal year, ended Jan. 31, 1987, to $10.8 million, from $9.3 million. That figure was up 21 percent from $7.7 million the year before. "It feels good to have taken care of the last payment in January," he added.

"While we don't have any set plans, we are now in a position to look for new locations and intend to open new stores," he said. Specifically, the chain is interested in locations in southern Connecticut, northern New Jersey and Westchester County, N.Y., to stay within a 30-mile radius from its home base.

Langus plans to keep all stores in similar affluent areas. Three stores are currently located in Westchester County (Bedford Hills-Mount Kisco, Yorktown Heights, and Mamaroneck, N.Y.)

(Continued on page 40)

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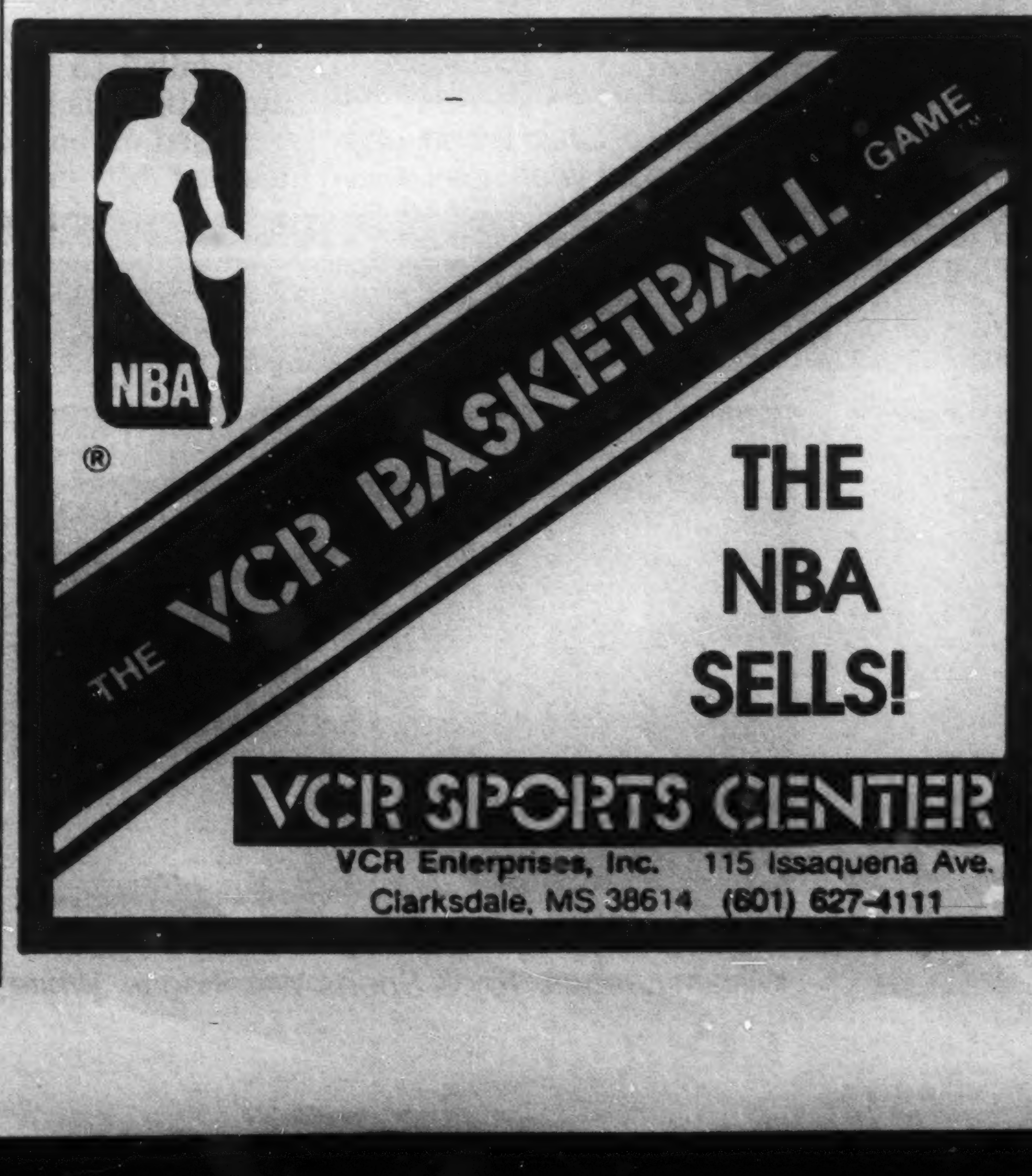

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Wal-Mart Launches World's Largest Private Satellite Network

(Continued from page 1)

the edge of the satellite's broadcast footprint.

The hub station, which includes the control unit and equipment to interface with computer centers, telephone PBXs and video sources, needs the larger antenna to ensure the best reception of information carried on the narrow portion of the Ku-band frequency assigned to Wal-Mart. The PESs include transmitting and receiving equipment and hardware to interface with the stores' computer and telephone systems.

Transmissions are sent via the Satellite Business System SBS 4 satellite, one of about a dozen Ku-band satellites. Communications between headquarters and stores are staggered to insure an orderly signal flow on Wal-Mart's narrow Ku-band, thereby avoiding short bursts of massive transmissions that would require a wider, more expensive band that wouldn't be fully used for long periods of time.

Most PESs were installed by National Communications Services, with the dishes on steel poles up to 23 feet high, cantilevered over the stores' roofs, facing the orbiting SBS.

Company chairman Samuel M. Walton and president David Glass inaugurated the network in mid-January with a 15-minute live audio/video transmission to all company stores and divisions scattered in 24 states. Wal-Mart is the "nation's foremost corporate pioneer in establishing a network of this type," Walton told the more than 185,000 workers watching at headquarters, stores and distribution centers.

The multi-million dollar network, two-and-one-half years in the making, is the outgrowth of a $16 million contract (see *DSN*, May 13, 1985, page 62) to provide the equipment for a turnkey satellite communication network to connect the Bentonville headquarters with just 750 Wal-Mart discount stores and Sam's Wholesale Club units as well as two DCs.

As the company grew, the network flowered into a more sophisticated and expensive effort whose undisclosed total cost included about $1 million to set up the main hub station in Bentonville in mid-1985 and between $2,800 and $3,500 per site on average to install the PES very small aperture terminals at the stores and warehouses. Leasing time on the satellite runs about an additional $50,000 a month.

Wal-Mart will obtain a number of paybacks, executives at the chain told *DSN* and *Satellite Communications Magazine*, a technical publication. These include:

- Improved data communication for computers and for credit card authorization, the key benefit of a satellite network. Digital computer data and voice transmissions are sent at 56 kilobits per second, compared to the 12 or 24 kilobits per second over telephone lines.

Using the satellite network, computer data information is collected on the average of 12 times a day from the stores, rather than the twice daily polling using telephone lines.

- More reliable, faster and accurate credit card authorization to help speed up checkout service. Wal-Mart is interested in the credit card firms directly tieing into its satellite network to reduce the use of less reliable land line links.

The network's reliability was evident from operational records during its installation. About 50 Wal-Marts were on the network by the end of 1986 and stores were added at the rate of about 150 a month last year. During this time, the system was operational more than 99 percent of the time.

- Cutting telephone costs, perhaps by 20 percent to 30 percent, while providing high speed, consistant communications in place of the slower, less certain services offered by 400 different phone companies, many in rural areas and some without touch-tone capability.

Voice compression is used to transmit voice at 16 kilobits per second. Echo cancellation techniques implemented in digital signal processors minimize the effects of echo, while descrambling modules allow reception of cryptographically protected audio signals and a scrambled video signal.

- Instant "delivery" of training programs by recording sessions on videotape and then transmitting that master video to stores for recording and playback on a VCR. Besides the faster delivery, the network's video function avoids the need and expense of mailing out tapes or films to the over 1,200 stores.

Video signals are broadcast analog video, transmitted on a separate transponder on the satellite. The video is picked up on standard satellite FM video receivers.

Walton Receives NRMA Gold Medal

(Continued from page 1)

boy from Kingfisher, Okla., who went on to make Bentonville one of the capitals of the retail world," Walton delivered a freewheeling 15-minute address punctuated by asides to his friends and competitors in the audience.

He reminisced about the early years, when no one believed his projections for the company. As an occasional guest lecturer, he would tell students where the company was going, particularly after it hit "big" cities like Fort Smith, Ark.

"The professors just shook their heads," Walton said. In 1969, with the company reeling under debt, Walton and his financial people went to New York City to borrow $1 million, bringing along a financial plan that showed the company growing from $21 million in sales to $150 million in five years. The New York bankers "weren't buying it," so Walton returned to Arkansas empty-handed. Six months later, the company went public.

Walton has always maintained that the secret of Wal-Mart's success is profoundly simple—the company supplies small-town consumers with brand names at low prices in a friendly environment.

"Our company believes in people," he said. "It's a partnership that through the years has been very important. We believe in sharing with our people." He cited a recent stock shrinkage incentive plan and above-plan profit sharing as examples.

Wal-Mart is obsessed with controlling expenses to "keep prices as low as they can be," Walton said. "In recent years, we've lowered, not raised, prices."

Walton also cited flexibility and the willingness to try new ideas as key issues. Then he quoted Connecticut grocer Stew Leonard's maxim concerning customer relations. "Rule No. 1 is that the customer is always right. Rule No. 2 is if the customer is wrong, refer to rule No. 1."

Wal-Mart created a splash two years ago with an aggressive "Buy American" campaign, in which the company pledged to search out domestic sources for its merchandise. "We had three buying offices overseas; we were as guilty as anyone else," Walton said in his address.

"But we canvassed and found U.S. manufacturers who, if you gave them orders in advance and ordered enough, provided goods that were just as good as or better than the imports."

Walton listed several of the program's success stories, which he said have created 17,000 to 18,000 American jobs and accounted for $1.2 billion in sales at retail.

Walton began his retailing career after returning from World War II. He had worked for J.C. Penney briefly after receiving a degree in economics from the University of Missouri in 1940.

Using money he saved during the war, he parlayed his Penney experience into a Ben Franklin variety store franchise. He and his brother opened 15 more Ben Franklins, mostly in Arkansas, through the 1950s until Sam, in his travels, happened upon the infant discount industry.

When it became evident that Ben Franklin management was not as enamored of discounting as Sam was, he split off and opened the first Wal-Mart, in Rogers, Ark., in 1962. The chain grew slowly during the decade, keeping a low profile and concentrating on small, Southern markets.

After going public in 1969 when Wal-Mart operated 18 stores, the company grew rapidly and by the late '70s had become one of the largest retailers in the country. However, Wal-Mart's most dramatic growth and its status as a Wall Street darling arrived with the '80s. The company has exploded, pacing the industry in sales and profit growth on its way to becoming the world's largest retailer sometime in the early 1990s.

At an age when most men are comfortably retired, Walton has remained unquestionably in charge at Wal-Mart. He has twice tried limited retirements but each time cut the attempts short, explaining that he couldn't stay away. His executives reported that he never really left, but bombarded them with phone calls and office visits.

In a recent interview, Walton conceded that his lifestyle wasn't for everyone. Anyone, he said, could duplicate his success with enough work and a little bit of luck, but there's a cost in family life and personal relationships.

Overall, though, Walton seems to feel the price is worthwhile. He maintains a brutal schedule of nonstop meetings, trips to his more than 1,000 stores and a steady diet of public appearances.

Through it all, those close to him report, he has maintained the common touch that has been one of his trademarks. During his Gold Medal acceptance speech, Walton addressed that issue. "I'm worried about my carefully cultivated humility," Walton said, reporting that he had recently bought a new pickup truck and a new shotgun.

Walton, considered the wealthiest man in the U.S., has set up a series of educational grant programs in recent years, which primarily assist students in rural areas to pursue business careers.

Of his approach to people, he once said, "The reason for our success is our people and the way they're treated. All of us like to be recognized and appreciated. We need to feel the role we play or what we do is important. I didn't start out with that philosophy . . . but I came to develop it and appreciate it."

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Vol. 27, No. 3 Feb. 1, 1988

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Wal-Mart Hands CEO Crown to Glass

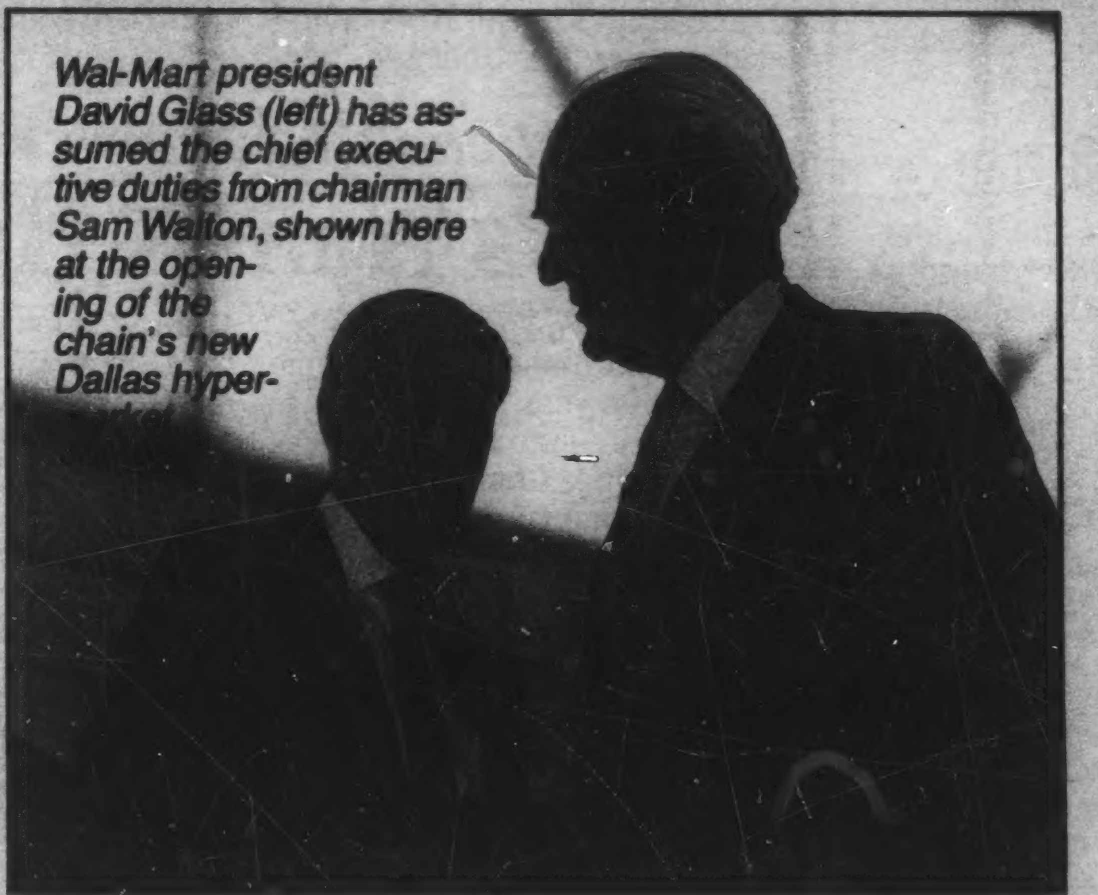
By Donald Longo

BENTONVILLE, Ark. — In separate, simultaneous announcements that for now establish an apparent successor to Sam Walton's retail legacy, Wal-Mart Stores president David Glass was promoted to chief executive officer, while vice chairman/chief financial officer Jack Shewmaker, the other leading candidate for Walton's throne, announced his retirement.

Wal-Mart also announced a restructuring of senior management that elevates a cadre of executives to positions of greater responsibility.

The moves allow the fast-growing retailer to avoid a power struggle for succession in the event that the 69-year-old Walton were to step down as chairman. They also illustrate Wal-Mart's uncanny ability to groom competent managers to fill the shoes of one of the most talented retailing executives in the country.

"You always hate to see such a talented, respected, smart and hands-on person like Shewmaker leave a company," said Jack Seibald, an investment analyst at Salomon Brothers, New York. "But, in a company like Wal-Mart, the team is so strong that the talent transcends the ceo spot to lower levels. There wasn't a name [among those promoted] that I didn't know."



Wal-Mart president David Glass (left) has assumed the chief executive duties from chairman Sam Walton, shown here at the opening of the chain's new Dallas hyper-

In a statement released Feb. 1, Walton, who will turn 70 next month, said that Glass, "has exhibited excellent leadership and management skills during the last four years as president and chief operating officer, and prior to that, as chief financial officer for seven years."

Walton, despite relinquishing the ceo title, pledged to remain active as chairman of Wal-Mart and noted that Shewmaker will continue to serve Wal-Mart as a director and consultant.

Glass told *DSN* the two announcements "aren't related. He [Shewmaker] was going to retire regardless" of the restructuring, which he attributed "principally due to our growth."

He added, "In looking at our business, we had the benefit of being able to observe the experiences of other companies that grew to a large size before us." Glass noted that the re-

(Continued on page 99)

Carrefour Opens U.S. Hypermarket; Maintains True to European Roots

By Arthur Markowitz

PHILADELPHIA — Carrefour has finally joined the growing roster of hypermarkets in the United States, opening its first store here and projecting "sometime in 1989" as the target for its delayed Brookhaven, N.Y., unit.

The company, a $9 billion French retailing conglomerate that pioneered the *hypermarché* concept over two decades ago, opened a Carrefour in northeast Philadelphia, a 330,000-square-foot store pro-

(Continued on page 100)

Low gondolas, spacious aisles and wide assortments of merchandise are key features of Carrefour's hypermarket.(DSN photo)

K mart Eyes Purchase Of Interest in Makro

CINCINNATI — K mart is negotiating to acquire Makro, the European-style membership wholesale club operation based here. A spokeswoman for the discounter confirmed that K mart is engaged in discussions with SHV Holdings of the Netherlands to purchase an interest in the membership club chain.

The acquisition could be a significant one for K mart because the unique nature of Makro's operations would offer the discounter the opportunity to make a grand entrance into the booming membership warehouse club and hypermarket industries simultaneously.

The company had previously announced that it intended to open a hypermarket, now reportedly called American Fair, in partnership with grocer Bruno's, sometime late this summer. According to a Bruno's spokeswoman, the

(Continued on page 99)

Discount Store Losses Dim Zayre Corp. Results

By Peter Hisey

FRAMINGHAM, Mass. — Partly as a consequence of a massive $40 million write-down taken in the second quarter and slow Christmas sales, the Zayre Stores division of Zayre Corp. expects to show a loss for the fourth quarter and the fiscal year ended Jan. 31.

On the bright side, the company expects to show an overall profit, due mainly to the performance of its TJX Companies subsidiary and one-time profits from the sale of part of its interest in TJX as well as a change in accounting methods.

Last summer, Zayre announced that it would take a $40 million write-down to clear obsolete inventory and to competitively reprice a wide array of products, principally in hard lines.

(Continued on page 8)

Becomes No. 2 Auto Chain

Schuck's Group Buys Auto Works

By Richard C. Halverson

PONTIAC, Mich. — In one leap, Northern Automotive has jumped into the No. 2 slot in the automotives aftermarket by acquiring the 252 stores of Perry Drug Store's $133 million Auto Works division.

On a consolidated basis, sales for the five chains Northern Automotive has acquired over the past three years would be "in excess of $600 million" for the retail year ended January 1988, said Charles Engel, vice president

(Continued on page 96)

AUTO WORKS
DISCOUNT AUTO PARTS

Northern Automotive, in a $51 million deal, acquired the 252 units of Auto Works from Perry Drug Stores. (DSN photo)

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MARKETWATCH

K mart Adds 16 Bank Centers in Philly

PHILADELPHIA — K mart has added leased First Nationwide Bank financial service centers to 16 stores in the Greater Philadelphia area. Banking centers will be opened in additional Philadelphia stores this year.

Dart Ups Bid for Bradlees' Parent

LANDOVER, Md. — The Dart Group increased on Feb. 1 its bid for Bradlees' parent, Stop & Shop, by $1 to $31. In response, Wall Street continued to run up the price to $33.87, as of Feb. 3. Dart, owner of Crown Book and Trak Auto stores, also made its new offer contingent on the Stop & Shop's board surrendering control without a fight. Dart set an expiration date of Feb. 29 on its tender. In a filing with the Securities and Exchange Commission, Dart said it doesn't plan to sell either the supermarkets or Bradlees but said it might sell, and perhaps lease back, other, unnamed assets.

OTASCO Sells 260 Dealer-Owned Units

TULSA, Okla. — OTACSO has sold its 260 dealer stores to the CoastAmerica hardware chain for an undisclosed amount. That leaves OTASCO with 221 company-owned stores with 1987 sales of $250 million. The dealer stores accounted for only $50 million in 1987 for OTASCO's now-eliminated wholesale division. The remaining company stores will continue to carry a merchandise mix of 40 percent automotives, 20 percent seasonal lawn & garden and 40 percent brown and white hard goods.

Ross Stores Names Ferber as CEO

NEWARK, Calif. — Off-pricer Ross Stores has named company president Norman Ferber, 39, to the post of chief executive officer, a position previously held by Stuart Moldaw. Ross said Moldaw will remain with the 132-store chain as chairman of the board. Moldaw had taken on the ceo title last February when then president and ceo Donald Rowlett left the company (See *DSN*, March 16, 1987).

Family Dollar Sales Up 16%

MATTHEWS, N.C. — Family Dollar Stores, the 1,317-unit discounter based here, declared a quarterly cash dividend last month of 8 cents per share payable on April 15. Payment will be made to shareholders of record as of March 15. The last cash dividend was 7 cents, payable in the previous quarter. It also said sales rose 16 percent during the first quarter of 1988, ended Nov. 30, 1987, but net earnings fell by the same percentage, to $4.75 million. The sales gain was due to record December sales, up 21 percent from a year ago. The income fall was due to disappointing November sales and lower gross profit margins.

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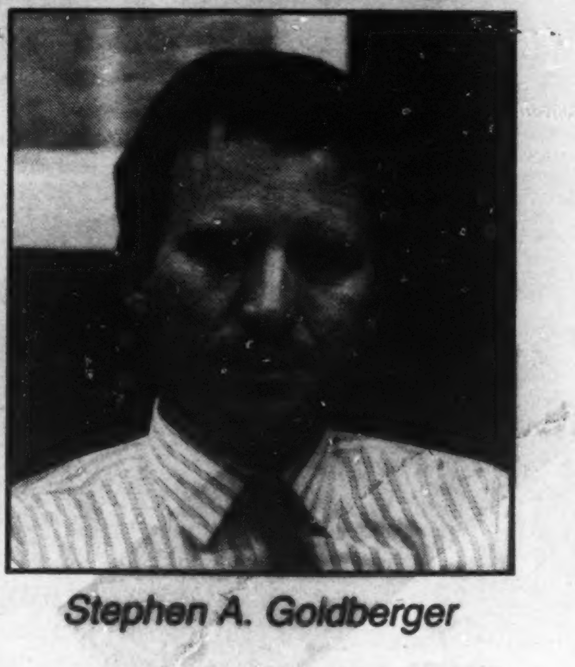
Stephen Goldberger, Founder's Son, Elected Chairman of Hills' Board



Stephen A. Goldberger

CANTON, Mass. — Stephen A. Goldberger, president and chief executive officer of Hills Department Stores, was elected chairman of the board by the company's board of directors on Feb. 1.

Goldberger, 45, assumes the title from his late father Herbert H. Goldberger, who died on Dec. 16, 1987. He will hold all three positions at Hills, a spokeswoman said.

There will not be any significant changes in the Hills operation since Goldberger has long been at the helm of the discount chain and worked closely with his father, company officials said.

Goldberger has been president of Hills since 1981. He joined the chain in 1971.

Since then, he has held various soft lines positions in addition to controller, vice president, finance and administration, vice president, merchandising and sales promotions, and executive vice president before becoming president seven years ago.

Former Nichols Executive VP, CFO

Heck's Names Hemsley as CFO

NITRO, W.Va. — Heck's, which next month marks completion of a year in Chapter 11 bankruptcy, has filled the position of chief financial officer.

The appointment of Maarten Hemsley, previously the cfo for S.E. Nichols, New York, as executive vice president, finance, and cfo, means that board chairman Russell L. Isaacs shed yet another of his responsiblities.

Until five months ago, Isaacs was wearing three hats, that of chairman, chief executive officer and chief financial officer. When John Isaac left as head of Service Merchandise catalog showrooms to become Heck's president, he took over the role of ceo from Isaacs.

Until now, Heck's had left the position of cfo vacant for two years, following the resignation of J. Frederick Witschey. Isaacs, who was once the cfo of Heck's before becoming chairman, reclaimed cfo responsibilities after Witschey left.

Hemsley's appointment follows another top-level change last September: the hiring of Kathy Hurley, as executive vice president, merchandising, said Bill Bragg, head of investor relations for Heck's. No other top-level changes are foreseen, Bragg said.

(Continued on page 11)

Debit Cards Topic at EFTA Expo '88

WASHINGTON — Retailer involvement with debit cards and other electronic fund transfer systems will be a key subject at EFTA Expo '88, the Electronic Funds Transfer Association's annual convention and show.

A new, related feature at the show will be the Shoppers Street, a realistic simulation of retail stores and services in which consumers can use various EFT technologies to "purchase" goods and "operate" equipment like vending machines and telephones.

Shoppers Street will be held in a separate, adjoining area of the Expo and will be open to the public. Participating firms will display services and products currently available, highlighting such EFT hardware and software as microchip-embedded "smart cards," debit cards, self-service reservations and ticketing, electronic catalog ordering, and cash, script and coupon dispensing.

EFTA Expo will be held April 10 to 13 at the Sheraton Washington Hotel, Washington D.C.

Retailer-oriented sessions include two concurrent panels to be held Monday April 11 from 2 p.m. to 3:15 p.m.:

"EFT in the Marketplace: Retailers as Promoters of EFT" will feature Joseph C. Denaro, Zayre vice president, as moderator. Richard L. Phegley, Exxon marketing advisor, and Albert A. Irator, American Express vice president of transaction services, will be the panelists.

"Information and Value Exchange, EFT via Cable TV and Videocassettes" will have Robert A. Mooney, J.C. Penney System Services president, as moderator. Stuart C. MacIntire, president and chief executive officer of electronic retailer Telaction, and William O. Adcock Jr., chairman of Synergistics Research, are scheduled panelists.

Another session, on Tuesday, April 12, 9 a.m. to 10:30 a.m., "EFT in the Marketplace: Opportunities for Retailer Expense Control and Revenue Enhancement" wi[illegible] feature Robert L. Wiesenec[illegible] president of Sears Paymen[illegible] Systems, as moderator and R. Lee Paulson, Lucky Store's Cetron Transaction Systems president, and Eugene Gerke, Gerke Economics president, as panelists.

Information, registration and hotel reservations are available from the Electronic Funds Transfer Association, 1726 M St., N.W., Suite 1000, Washington D.C. 20036. Phone: (202) 659-2100.

Study: Bar Codes Right on Target

PITTSBURGH — Bar coding is "an extremely accurate and effective method of data capture" and implementing current technology should result in an error rate of less than one error for every one million characters read.

That's the conclusion reached by the Automatic Identification Manufacturers Inc.'s year-long Bar Code Systems Performance Test conducted at the State University of New York at Stony Brook.

Over 2 million reading attempts were made during the test. "The overall read rate was 95 percent with approximately one misread per 380,000 characters read," AIM said.

"However, based on the data from this study, it would be reasonable to expect that a bar code system could be implemented today which would yield error rates better than one error for every 1 million characters read," AIM's Technological Symbology Committee said in its report.

In an unrelated study, Symbol Technologies sponsored a Touche Ross International test of the reading efficiency of hand-held vs. slot scanners. The test found that Symbol's hand-held LS 7000 II "rated higher in first read performance than the two leading slot scanners," Spectra Physics and Metrologic units.

The AIM's test goal was to establish "baseline scan performance and accuracy levels that can be achieved with commonly-used bar code symbologies, technologies and equipment. This information will then provide a base for more specific tests in the future" and "help users and vendors develop reasonable expectations for read and error rates and to design systems which will meet the performance needs of specific applications."

Over 20 million characters were read by hand-held scanners under "real world" conditions. Five wand and three laser units incorporating autodiscriminating technology (able to automatically recognize and decode more than one symbology) were used by 18 people to test seven symbologies: UPC version A and E which are the most commonly used bar codes, and more specialized codes, Interleaved 2-of-5; Code 39; Codabar; Code 128; and Code 93.

The symbols were printed by dot matrix, drum impact, direct thermal, flexographic,

(Continued on page 96)

BEST COPY AVAILABLE

Spring Jewelry Blends Movement and Tradition

Nationwide DSN Report

Costume jewelry with matte and textured finishes and earrings with movement are working with traditional color stories at most discounters this spring and summer.

Discount chains as diverse in their merchandising philosophies as upscaler Target and mainstream discounter ALCO are finding that "anything that is an item is important" for spring and summer jewelry, noted Michelle Forman, market representative at Arkin California, a buying office for Zayre, Gold Circle, and Venture, among others.

Primary Jewelry Focus

The primary jewelry focus rests on earrings in drops, elongated hoops, buttons, rosettes, geometrics and classic styles. Earrings with plenty of movement in matte gold, brights and black are especially important this year, said Forman.

"Drop earrings are very important," in a mixture of large and small pieces, agreed Jamie Boblitt, merchandising vice president with Accessories Associates Inc.

Lacy fan designs, seashells, skeletal outlines and two-toned earrings—in green with white, or pink with yellow—are looks also adding interest for spring and summer, according to Kae McCulloch, fashion consultant to the Jewelry Industry Council.

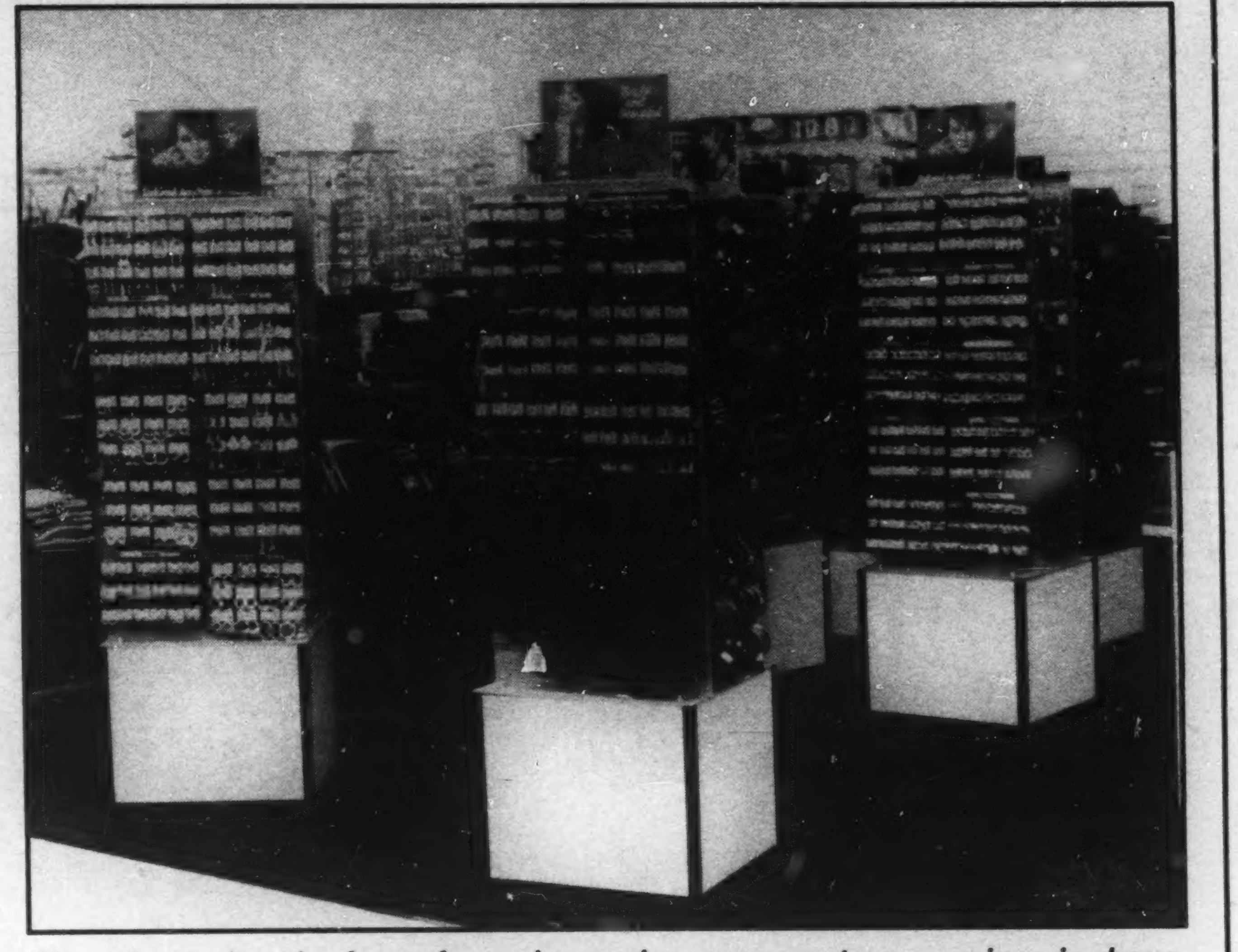
Earrings are also following a flower trend, coming in small and large rosettes in metallics and brights. Testing the flower appeal is jewelry manufacturer R.N. Koch, which expects hair accessories and some jewelry to adapt well to florals, according to Dana Hooper, marketing manager for the company.

Lacy fan designs, seashells, skeletal outlines and two-toned earrings are also adding interest for spring and summer jewelry.

Starting the spring season are predominately pastel colors, and discounters like Minneapolis-based Target are stocking a supply of the muted shades in geometric and drop shaped earrings. These ice creamy colors are paired with gold accents and picked up in beaded necklaces at Target.

The upscale discounter is also stocking a well-rounded supply of gold costume jewelry and fine jewelry and watches.

Jewelry makes an immediate impact as customers first enter Target's stores, where serviced counters and floor fixtures house the bulk of the stock. While low-priced jewelry is merchandised on turn racks, fine and bridge merchandise is placed in and on the counter area at the store.



The primary jewelry focus for spring and summer rests on earrings in drops, elongated hoops and buttons, all with plenty of movement in matte gold, brights and black, as shown at this Fisher's Big Wheel. (DSN photo)

At Abilene, Kan.-based ALCO, jewelry is housed in the middle of accessories and next to the apparel area, where it can play off apparel sales. While buyer Allen Day allows vendors to work the stores, he does put together promotions for Mother's Day, back-to-school and holiday.

Key price points at ALCO's jewelry department are between $3 and $4, with nothing over $6. Since Day said pilferage is a major problem, the loss is accounted for in the markup.

Spring's pastel colors also show up

(Continued on page 32)

Discounters Step into Fashion with Kids' Costume Jewelry

By Kenneth M. Chanko
Nationwide DSN Report

Now that many discounters have upscaled their children's apparel departments to reflect more fashion, the next logical step is to go after costume jewelry for size 4 to 6x and preteen girls.

And, that's exactly what a large number of full-line discounters are doing. Over the last year, such discount chains as Caldor, Jamesway, K mart, Wal-Mart, Ames, Glosser Bros.,Rose's and Fisher's Big Wheel, among others, have either started carrying costume jewelry for young girls or have substantially expanded their jewelry offerings.

Most of the discount chains mentioned above, as well as other chains, now devote an entire freestanding tower fixture to kids' costume jewelry and hair ornaments, positioning it either in the jewelry area or in the children's apparel department. And in most cases, the jewelry supplier provides the fixturing and services the merchandise that is supplied for the department.

'There's been a real trend in accessorizing kids' ready-to-wear, following the department store trend. Total kids' business is a big development area.'

—Jane Thompson,
buyer, costume and fine jewelry,
Caldor

Bracelets, earrings, necklaces, rings and boxed sets, mainly for the Christmas season, along with hair accessories, interpreted from juniors, is the majority of the business. Christmas and back-to-school are big selling periods, but so is Easter and "back-to-camp" in May.

Retailers and manufacturers said that since the discounter is paying more attention to its children's business, costume jewelry for children is a natural avenue to further expand the segment.

Newness is important, and most suppliers offer fresh looks on a monthly basis.

Most retailers got into this business through their regular costume jewelry service suppliers last spring.

At Caldor, Jane Thompson, buyer of costume and fine jewelry, said kids' costume jewelry hit the stores last May. Now, the 117-unit discounter has a one-tower fixture in every store.

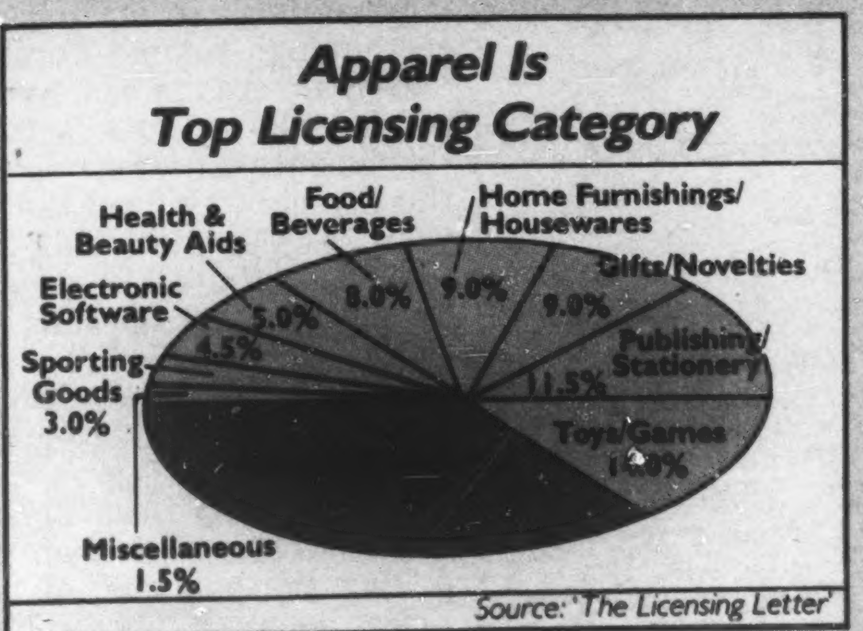
In most units, according to Thompson, the tower stands at the end of the jewelry area, which is close to the children's apparel area. The fixture holds $4,000 worth of merchandise at retail, generating $250 per square foot. Price points range from 99 cents to $5.

"There's been a real trend in accessorizing kids' ready-to-wear, following the department store trend," said Thompson. "Total kids' business is a big development area."

Thompson said that in less than a year kids' costume jewelry went from

(Continued on page 32)

MARKETWATCH



Apparel Is Top Licensing Category

Source: 'The Licensing Letter'

NEW YORK — Retail sales of licensed products last year were up about 3 percent to $55.9 billion, with the apparel and accessories category the largest piece of the licensing pie. Licensed apparel and accessories products registered sales of $19.2 billion, or 34.5 percent of all licensing sales. According to the industry publication, **"The Licensing Letter,"** apparel and accessories saw the biggest sales gain last year, while toys and games recorded the sharpest drop. Corporate trademarks and brand names were the big gainers among licensed properties, while cartoon characters, though still the second-most popular type of licensed property, suffered the biggest decline. The No. 2 category after apparel was toys and games, with $7.8 billion in sales, representing 14 percent of the licensed product market; followed by publishing/stationery, with $6.5 billion and 11.5 percent; and gifts/novelties, with $5.1 billion and 9 percent of the market.

* * *

NATICK, Mass.— **T.J. Maxx**, the billion dollar-plus apparel off-pricer based here, has made a number of key merchandising appointments and promotions, including: David Carey, promoted to assistant vice president, divisional merchandise manager, domestics; Ronald Finestone, promoted to assistant vp, dmm, misses moderate and large size sportswear; Phil Jenis, promoted to assistant vp, dmm, accessories; Jack Lindner, named assistant vp, merchandising; and Kathryn Trail, named buyer of misses moderate sportswear.

Home Products

CE Buyers Look to Video Games and Cassettes

LAS VEGAS, Nev. — Last month's Winter Consumer Electronics Show left retailers with few clear signals to indicate where their CE business is heading in 1988 and little suggestion on what products to add to their current lines.

Retailers, in general, concentrated on how they could expand categories like video games and prerecorded video that sold best in 1987.

For most, the two best selling categories in 1987 were video games and prerecorded videotapes. While audio was soft in 1987, retailers look to 1988 as a better year.

John Zurlo, merchandise manager at Secaucus, N.J.-based Jamesway, said he expects growth in the game market this year and will be taking a closer look at video games.

Richard Millner, CE buyer at Abilene, Kan.-based ALCO, said that Atari game sales at his chain doubled last year. He plans to test Nintendo in five stores as an addition to Atari. But, "if it takes dollars away from Atari then it doesn't make any sense to carry Nintendo," he said.

The sale of prerecorded video has become a good year-round business for a number of discounters. At Jamesway, videocassettes at $29.95 and under sold well throughout the year, Zurlo said.

Although ALCO is not turning its inventory adequately in the 45 stores that carry prerecorded video, Millner believes that adjusting the mix, weeding out multiple titles and increasing advertising support can improve that performance.

ALCO's assortment consists of 125 titles in box office hits, 30 in children's titles, 35 in public domain and 40 titles in cartoons. Box office hits and cartoons are the two hottest categories for the discounter.

Millner said that he does not carry any prerecorded video that sells for more than $29.99 and the magic price point for the category seems to be $19.99, he said.

Manufacturers believe that retailers would have more success in turning their "how-to" videocassettes if they put the video where the target customer is by cross merchandising.

Cross Merchandising Videos

For example, several suppliers suggested putting fishing tapes in sporting goods, cooking tapes in housewares, children's titles in toys and knitting how-to's in the sewing section.

Many pointed to the example of Minneapolis-based Target, which was very successful last summer when it sold a "how to barbecue" videocassette in its outdoor department.

Since there weren't that many new product introductions at this year's WCES, Millner of ALCO took an interest in a nostalgic-style radio made by Thomas America Corp., Norman Rockwell Division, in East Brunswick, N.J.

This table model radio with brass knobs and a cassette player on the side will be tested in half the ALCO stores at an $80 price point.

Millner said he saw an appreciation for nostalgia by his customers three years ago when ALCO successfully sold tapes of old radio shows.

Millner, whose ALCO stores cater to a decidedly working-class clientele, said that he considered several videocassette players, but still feels that the price points are too high at $169 to $189. It will take a price point of $99 to sell well at ALCO, he said.

ALCO will also change its assortment of color televisions: A 105-channel, cable-ready unit will replace a remote control unit with 12 preset channels. The chain will also carry a 13-inch model at $239 and a 19-inch model at $299. ALCO will test stereo TV at under $400 in the second half of the year in a selected group of stores.

PRERECORDED VIDEO
VIDEO

Video games and prerecorded videotapes, shown here at Harts, Fairfield, Ohio, were the best selling CE products in 1987 for most retailers. (DSN photo)

While retailers saw a softness in audio in 1987, they expect 1988 to be a better year as compact disc players gain more acceptance.

Jamesway carries one CD player for $180 and 3 to 4 sku's of rack systems with CD players with prices ranging from $300 to $450. Zurlo has seen some price reductions in CD hardware and more competitive pricing on CD software.

Millner of ALCO said that CD software is still priced too high for his customers. "It needs to break the $10 price point to start selling well," Millner said. ALCO carries two CD players ranging in price from $99 to $299. Millner said ALCO is considering testing 3-inch compact disc singles for $4.

Brad Anderson, executive vice president of sales and marketing for Minneapolis-based Best Buy, said that a lower price point on the multidisc CD players from $299 and up will also spur more sales in audio.

Anderson said the chain was ahead of budget on CD players and the software business is doing well. The chain sells the 3-inch singles for $4 and regular size CDs for between $12 and $15.

Anderson agreed that audio, in general, was not as hot in 1987 as in the previous year. However, the chain had a pretty good year despite the slump in this category's growth. Components seem to be selling more than the rack systems, he added.

Super VHS, like any new product, is selling reasonably well to a narrow audience with limited application, said executives of most consumer electronics specialty chains. The software availability is trailing the hardware and the category needs to drop further in price. Anderson of Best Buy believes the category will become significant in one and a half to two years.

Discount Stores, Minilabs Benefit From Photography Market Boom

Nationwide DSN Report

Americans took more pictures in 1987, and discount stores and minilabs were the main beneficiaries of the trend. According to the "Guide to the Photo Market for Mass Merchandisers," a report issued by Photo Marketing Association International, exposures were up between 12 percent and 15 percent during the first half of 1987, with most of the increase in 35mm film.

Much of the increase is attributed to the popularity of lens shutter cameras, which provide easy action and results acceptable to the lion's share of the amateur photo market.

(Continued on page 40)

MARKETWATCH

MOORESTOWN, N.J. — The **Juvenile Products Manufacturers Association** announced that membership in the organization rose 42 percent to 187 manufacturers in 1986 and 1987, following record years for its annual trade show. A spokesman said he expects membership to continue its strong growth, and anticipates another record year for the show, which will be held Nov. 13 to 16, at the Dallas Market Center's Apparel Mart.

* * *

EDISON, N.J. — **Crazy Eddie** reported a fiscal third quarter loss of $73 million, exceeding sales of $68.7 million for the period ended Nov. 29, 1987. The loss resulted mainly from an expected inventory shortfall of $65 million. Crazy Eddie's new management hired Touche, Ross & Co. as its new auditor and filed suit against former auditor, Peat, Marwick, Main & Co., forcing the big accounting firm to turn over work papers of its last audit and analysis of inventory.

* * *

BALTIMORE, Md. — The sixth annual **World of Window Coverings** show, set to make its debut here at the Baltimore Convention Center April 15 to 17, reported that suppliers have reserved a record amount of exhibition space for the 1988 show. Show sponsors said that exhibit reservations are up 20 percent over last year's show, which was held in Atlanta. "Ninety-five percent of the exhibit space has been reserved by leading manufacturers and suppliers of fabric, window covering products, equipment and related services," said J. Craig Misselhorn, manager of the show.

* * *

JACKSON, Mich. — The **Photo Marketing Association's** annual PMA show will take place Feb. 28 to March 3 at McCormick Place in Chicago. The show will feature, in addition to a near-total representation of major photo products suppliers, a five-day series of seminars (beginning two days before the show), as well as keynote speeches by columnists William F. Buckley Jr. and George F. Will, and Chicago Bears coach Mike Ditka. For more information on the show, contact the Photo Marketing Association at 3000 Picture Place, Jackson, Mich. 49201. Telephone: (800) 248-8804. In Michigan or outside the United States, call (517) 788-8100.

Discount Stores, Minilabs Benefit from Growing Photo Market

(Continued from page 39)

According to the report, the steady decline of the relatively complicated single lens reflex 35mm camera has been accelerated by lens shutter cameras and will be further sped up by the introduction of autofocus zoom shutter lens cameras, which are expected to become significant players in the upgrade market now dominated by SLRs.

SLR sales were down considerably to 650,000 units over the first half of 1987, which will fall far short of 1986 sales of 1.9 million units. Disc camera sales also continued to drop, although strong promotion by Kodak has kept the category alive.

Photo Products Purchased at Discounters

Discount department stores are the outlets where on average:

23.7%	of households purchased their newest camera
42.1%	shopped when looking for their newest camera
22.5%	plan to purchase their next camera
47.5%	bought some of their film in the last year
15.2%	had most of their film processed in the last year
61.0%	purchased some of their photo albums

Source: Consumer Photographic Survey, Photo Marketing Association

Promotion also stimulated sales of instant cameras, as Polaroid's Spectra System received massive publicity and advertising support. According to the report, instant camera sales rose to 3.2 million units through 1986 from 3.0 million the year before, and were expected to continue to grow through 1987.

A discount buyer noted, however, that growing "professionalism" among consumers has made 35mm the camera of choice among those able to afford instant cameras, boding poorly for the future of the category.

Polaroid has responded to that problem with the distribution of its own photo magazine, which promotes the professional capacities of its cameras. An early issue noted that Ansel Adams, America's best-known photographer, used the product and served the company in an advisory capacity.

The report emphasized that reports of the death of the 110 and other cartridge cameras are premature. "It is important that we recognize the role these cameras play in attracting brand-new customers to our industry," the report warned, noting that the ease of operation and low cost of cartridge cameras are very attractive to beginners, who later step up to more complex formats.

In the war for the profitable photo finishing dollar (an estimated $4 billion market), the report suggests that those retailers that own their developing facilities will have a long-term advantage over those that do not. Minilabs (many owned by discount stores) account for about one-quarter of rolls of film developed, but over one-third of dollar volume nationally.

Minilabs seem to be most attractive to 35mm users, which bodes well for their future growth potential, the report said. As the 35mm format rises to an estimated 75 percent of the film market (from a little over 50 percent in 1986), minilabs are expected to be a prime beneficiary of the boom. The average minilab now does about 80 percent of its business in 35mm.

Camcorder Sales Grow

Camcorders, one of the hottest developments in the industry, sold very well over the first half of 1987, with sales increases of 44 percent over the same period in 1986.

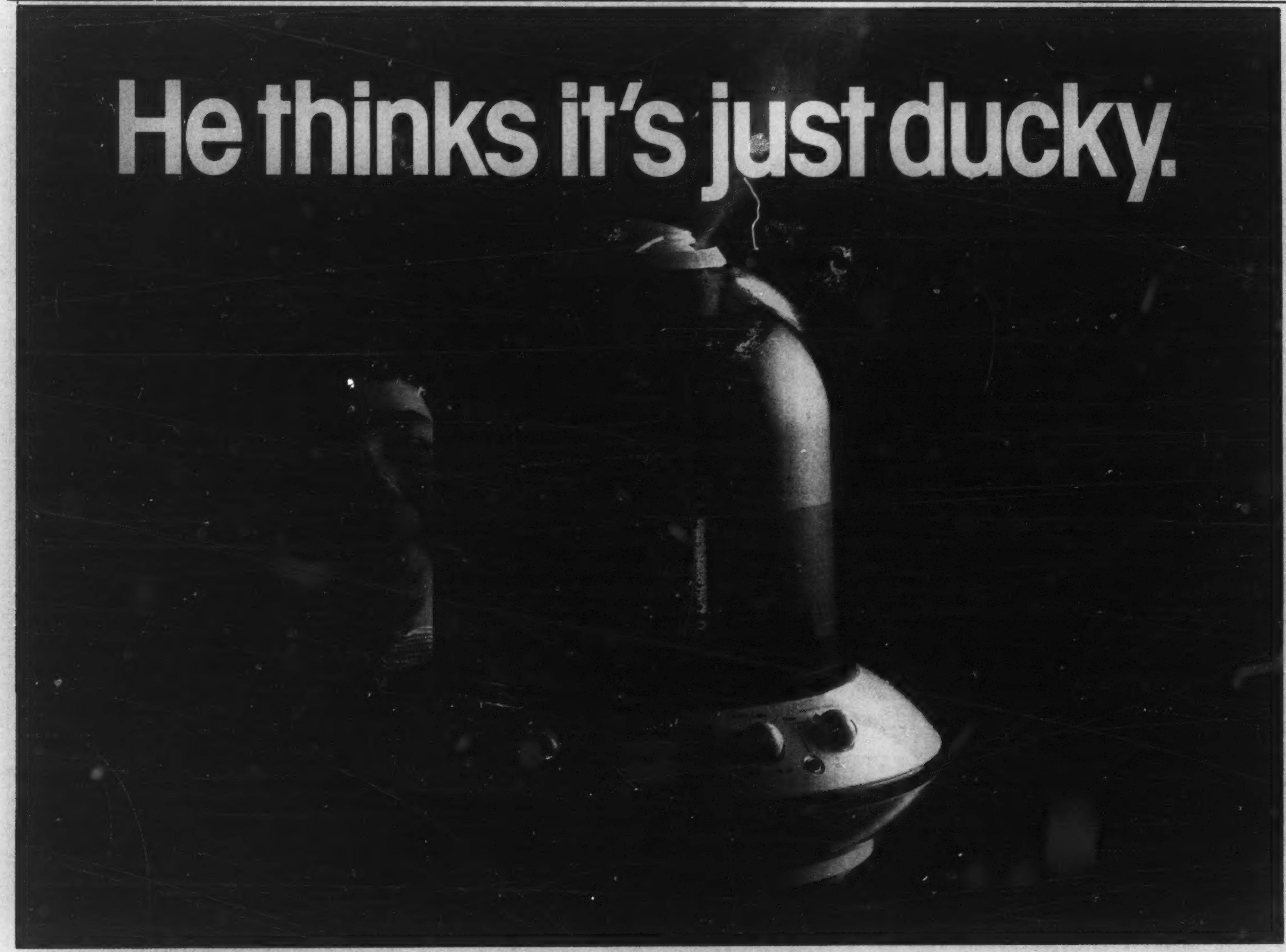
The product's attractiveness to wealthier consumers with large amounts of discretionary income indicates continued growth in the category, particularly in view of the introduction of the attractive, expensive and totally incompatible Super VHS, the optimal upgrade product.

Video transfer of 8mm and Super 8 reels has also picked up steam, although it remains a specialty business. The report estimated there are upwards of 200 million rolls of 8mm and Super 8 collecting dust in American attics, and expects a significant portion to find its way to video transfer facilities.

Discounters, in addition to dominance in film sales, have an edge in camera sales. Except for consumers under 25 years of age, discounters are the largest single camera source for all age groups. Discounters are also the preferred source among lower-income groups and the wealthy. Middle-income consumers are less likely to purchase their cameras from discounters, opting instead for catalog showrooms and camera stores.

Camera stores increase their share steadily as consumer education level goes up. Education seems to have little impact on discount stores; discounters' share varies widely, but in no consistent manner.

Photo Marketing Association International's "Guide to the Photo Market for Mass Merchandisers" is available from the Association at 3000 Picture Place, Jackson, Mich. 49201. Telephone: (517) 788-8100.



Who else would even think of putting a happy family of ducks swimming around the reservoir of an ultrasonic humidifier? Nobody but Soundesign.

Because most humidifiers are purchased for kids' rooms, we designed the very first one with kid-friendly features. Like a night light. A lullabye that plays for up to 60 minutes then automatically shuts off.

And ducks.

In fact, we've put all our ducks in a row to give you a complete line of ultrasonic room humidifiers that look great anywhere in the house. And all come with the kind of features your customers want, like efficient operation, adjustable humidity level, automatic shut-off when the desired humidity level is reached or the water tank is empty, built-in medication/deodorizer chamber, and a tip-over shutoff switch for extra safety.

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TADs Pace Sales; Growth Seen for Fax, Copiers

Nationwide DSN Report

Sales of telephone answering machines are booming and discounters expect the growth to keep up through 1989, a survey of electronic home office retailers discovered. The report, conducted by Lebhar-Friedman Research, New York, found that all of the retailers surveyed stock answering machines, and those retailers reported that sales of the product rose 28 percent last year, with a similar increase projected for 1988.

The fastest growing products in 1987, according to the report, were facsimile machines (up 65 percent from 1986) and personal copiers (up 36 percent). However, indications are that the drama of those increases is due mainly to the fact that many discounters didn't carry either product at all in 1986. Projected increases for 1988 were more modest; 15 percent for personal copiers and 21 percent for facsimile machines.

As a percentage of sales among discounters, telephone answering machines were again an easy winner. Respondents said that the product accounted for 38 percent of their home office electronic sales. Typewriters, a higher ticket item, accounted for 35 percent; personal copiers, 13 percent; personal computers, 7 percent; and facsimile machines, 1 percent.

However, when only those actually carrying each product were considered, the percentages changed markedly. Telephone answering machines (obviously, given that all retailers carried them) remained unchanged at 38 percent, while the percentage of sales attributed to typewriters rose to 45 percent. Personal computers jumped from 7 percent to 22 percent and personal copiers rose from 13 percent to 33 percent. Apparently, those who choose to specialize in some of the less popular home office products are rewarded with significant sales results.

Product quality was considered the most important factor in deciding whether or not to carry a given home office electronic item, but price points and co-op dollars made nearly as much impact. Provision of a manufacturer hotline and training for sales people were lesser considerations.

A large majority (63 percent) maintain a distinct department for electronic home office products, and another 5 percent plan to establish such a department within the year. Retailers cited consumer identification and opportunity for add-on and impulse sales as the primary advantages of a separate department.

About a third of retailers who don't sell typewriters said that it was "very likely" that they would add them to their product mix this year. This contrasts to much weaker support for other electronic office products; while 21 percent of those who don't carry personal copiers said they might add them this year, they said they were only "somewhat likely" to do so.

About 16 percent of those who don't presently stock facsimile machines said they were "somewhat likely" to add them this year; 26 percent of those not in the personal computer market were similarly "somewhat likely" to add that product.

Respondents who stocked each product were asked what brand names they carried in their departments in each category. Panasonic and Phone-Mate were ranked equally high as the most popular telephone answering machine manufacturers (47 percent each), followed by Code-A-Phone (42 percent), Record-A-Call (37 percent), AT&T (32 percent), GE (26 percent), Sony (16 percent) and Dynascan/Cobra (11 percent).

Discounters who carry typewriters named Brother and Smith Corona as the most popular brands (42 percent each), followed by Panasonic (37 percent). Canon, Royal, Sharp, Casio and Silver Reed were also mentioned.

Panasonic, the most popular overall brand in electronic home office departments, tied for second among retailers who sell facsimile machines. Sharp finished first, followed by Canon, Panasonic, Toshiba and Northwestern Bell.

Commodore was the most popular personal computer, followed by Atari, Epson, Fuji, Blue Chip and Vendex. Canon, Sharp and Toshiba tied for first place among those who sell personal copiers; no other brand received a mention.

The research was conducted last fall by Lebhar-Friedman Research, a subsidiary of *DSN*'s parent company, among general merchandise managers and hard lines gmm's for 19 leading discount department stores, membership warehouse clubs, catalog showrooms and consumer electronic chains.

Increase in Sales of Home Office Products

A significant majority of respondents reported an increase in sales of telephone answering devices during the past year. Almost as many projected increased sales for the year to come, as well.

Product	Percent Currently Merchandising Product	Percent Carrying Product & Reporting Increased Sales Past 12 Mos.	Percent of Sales Increase Past 12 Mos.	Percent Carrying Product & Projecting Increased Sales Next 12 Mos.	Projected Percent of Sales Increase Next 12 Mos.
Telephone Answering Devices	100%	84%	27.5%	79%	27.7%
Typewriters	84	63	17.5	37	15.0
Personal Copiers	47	26	36.2	32	15.0
Facsimile Machines	37	21	65.0	26	21.3
Personal Computers	37	16	16.7	26	15.0

Source: LF research

Discounters Dial Profits with Phone, TAD Sales

(Continued from page 77)

only have a few seconds to make the sale. A clear representation of price and features must be available on store signage or samples in order for a customer to make a purchase, he said.

The Hills buyer added that packaging is crucial to sell merchandise in discount stores. He said he would like to stock more see-through boxes of telephones and TADs so that if the sample is missing the store will not lose a sale. He said vendors that have taken this approach are more successful in Hills stores.

Pivnicny said AT&T has been its No. 1 vendor since it started stocking higher-end products in the assortment. The chain is currently more successful and profitable in the promotional and mid-priced merchandise from such vendors as Conair, Cosmo, Code-A-Phone and Planned Technologies, he said.

John Zurlo, merchandise manager at Jamesway, said the Secaucus, N.J.-based chain stocks basic answering machines made by Panasonic, AT&T, GTE, Conair and Phonemate because most Jamesway TAD shoppers are first-time buyers.

Even specialty chains, which generally garner a higher percentage of more experienced, step-up users, report that most of their TAD sales are to first-time buyers.

The experience of Minneapolis-based Best Buy supports that trend, even though higher-end TADs sold well too. However, Brad Anderson, executive vice president, sales and marketing, explained that the problem with high-end product is that it has subtle benefits that are not always clear to all customers.

"Consumers want features that offer benefits that are easy to comprehend. Most of the higher technology like the IC chip really just makes the unit a little more pleasant to use. It is hard to sell those features in an environment with fairly limited sales assistance. It is the same as high-end audio; it is much more difficult to demonstrate advantages as features get more complex," Anderson explained.

In TADs, full-line discounter ALCO plans to add a very promotional answering device for $39 to an upper-end assortment ranging in price from $69 to $89. Richard Millner, CE buyer for the Abilene, Kan.-based chain, said his customers for the TADs are first-time users so he believes the promotional unit will do well.

During the second half of this year, ALCO will test an integrated phone and answering device that will range between $69 and $99. He said he tried to sell an integrated unit three years ago at $99 and it didn't sell well.

In telephones, the trade-up customer is being courted by most discounters. Jamesway will be selling multiple line phones this year. "Most households have two lines and we are getting many requests for them so we are reacting to the market," Zurlo said. The discounter will be testing an AT&T unit at a $99.99 everyday price in the first quarter.

Millner of ALCO said he had three very good years in a row on his 20-sku assortment of telephones and expects growth to continue.

Larry Richenstein, president, of Planned Technologies which markets Lonestar phones, believes decorator phones will be strong sellers in 1988 and multifunction phones have a great market potential.

Donna Trampel, president of Northwestern Bell, full-line distributor and one of the largest Bell companies to market phones nationally, said she believes consumers will spend more on products they can count on. However, she also noted that the great number of different products on the market is causing confusion.

Trampel cited research that indicates basics are growing, with 1.0 to 1.7 million basic units sold every year.

"Research indicates that the first-time buyer does not have a lot of money and wants an answering device that is easy to use, has remote, call screening and fast forward," Trampel said.

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Wal-Mart Hands CEO Crown to Glass; Shewmaker Retires

(Continued from page 1)

structuring emphasizes one of Wal-Mart's major strengths—expense control—in that it does not add new levels of bureaucracy at headquarters.

Along with Glass' new title, the company announced the following promotions:

- Don Soderquist, board member and executive vp, operations and administration, to vice chairman and chief operating officer of Wal-Mart;
- Al Johnson, board member and exec vp, merchandise and sales, to vice chairman, responsible for the Sam's Wholesale Club division, Hypermart USA, and all specialty divisions;
- Paul Carter, exec vp of finance, to chief financial officer, and his name will be placed in nomination to the Wal-Mart board of directors;
- Bill Fields, senior vp, distribution and transportation, to exec vp, merchandise and sales, Wal-Mart Stores;
- Al Miles, senior vp of special projects, to exec vp of special projects;
- Joe Hardin, vp of distribution, to senior vp of distribution and transportation;
- Lee Scott, vp of transportation, to vp of distribution.

Few industry observers were surprised at Glass' promotion. "The Glass decision was made a couple of years ago," said Daniel Wewer Jr., an investment analyst at Robinson-Humphrey, Atlanta.

But, some said Shewmaker's retirement was unexpected.

In his 18 years at Wal-Mart, Shewmaker has held many management posts, including president, until 1984, when he exchanged jobs with Glass, who was then vice chairman and chief financial officer. At the time, the company insisted the switch was made to broaden each executive's experience, but many security analysts and trade observers felt that the change positioned Glass as the eventual chief executive officer.

In addition to his accomplishments at Wal-Mart, where he was instrumental in spearheading the growth of Sam's Wholesale Club into one of the two dominant chains in the membership warehouse club industry, Shewmaker has served on the board of directors of the International Mass Retail Association and helped form the Voluntary Inter-Industry Communication Standards committee working on standardized UPC bar codes.

The company announced that Shewmaker plans to take time off to spend with his family, travel with his wife, Melba, and devote more attention to his other businesses.

Glass was born and raised in Mountainview, a small town in central Missouri. He will turn 53 on Sept. 2. Glass was running a drug chain in Springfield, Mo., when Walton located a Wal-Mart discount store in that city. "I didn't pay much attention to it at first" because discount stores hadn't become a proven concept yet, but "when Sam opened his second store" in the market, "I decided to go take a look at it. Sam and I have been friends since," said Glass.

Glass joined Wal-Mart in 1976 as executive vp and cfo.

Stock analysts contacted by *DSN* felt confident that there will be no perceptible change at Wal-Mart as a result of the restructuring.

"The stock might be sluggish for a while, mainly due to portfolio managers who don't know these people, but the effect will be entirely psychological and short-lived," said Daniel Barry, a Kidder Peabody analyst.

The day following the announcement, Feb. 2, Wal-Mart stock fell ¼ point to 26⅞ per share on the New York Stock Exchange.

Wal-Mart Gambles That Small Town Hypermart Will Pay Off

(Continued from page 3)

ket, contains nearly 2.4 million inhabitants.

More importantly, total retail sales in the Dallas market of $17.3 billion dwarf the just over $1 billion in retail sales generated last year in Topeka, according to figures contained in *Sales & Marketing Management's* 1987 Survey of Buying Power.

To be successful, Wal-Mart's Topeka hypermarket will have to "become a regional trade center," said Duane Naccarato, Hypermart USA's vice president and general manager, drawing customers from nearby Lawrence (a college town that is home to Kansas University), Kansas City (about 80 miles to the east) and southeastern Nebraska.

"I didn't realize Topeka is as large and active as it is," said Walton, referring to shopping activity he observed in the market during the days prior to the hypermarket opening.

Naccarato said the hypermarket has "got to be [a regional shopping center]. We can't exist on a 160,000 county population." A shopping mall, anchored by a Dillard's department store, under construction near the hypermarket, is also expected to attract customers from far and wide.

Many industry observers speculate that a second type of hypermarket concept that Wal-Mart plans to unveil in Washington, Mo., on March 1 will become a more viable concept for the chain to unleash on smaller markets. Wal-Mart Super Centers—expansions or relocations of existing Wal-Mart stores which combine food and general merchandise but lack the attached free-standing food and service operations of the Hypermart USAs—are a good bet to "be quite successful," according to Stephen F. Mandel Jr., a researcher for Goldman Sachs.

In a report on Wal-Mart's foray into food retailing, Mandel notes Super Centers will benefit from "a built-in perception of great value among consumers" already familiar with the Wal-Mart name.

With the exception of some strong regional chains, supermarket competition for the Super Centers will be weaker in the small markets than in larger metro areas. And, since the Super Centers will draw many of their sites from existing locations, the potential to roll this concept out quickly is much greater than the expansion possibilities of Hypermart USA, which requires acres of real estate for stores and parking lots.

"You can argue it both ways," said David Glass, Wal-Mart's president and new chief executive officer (see story, page 1). "We're still learning a lot that we didn't know. It's an exciting prospect. Hopefully, both concepts" will result in furthering Wal-Mart's growth.

Among the "learning experiences" encountered by company executives was the fact that Hypermart USA needed more than the 40 checkout stands that the chain opened with in Dallas. Typical of the chain's ability to react quickly to problems, the pharmacy department in the Topeka facility was relocated out of the main hypermarket store and placed among the freestanding specialty outlets in the mall area. This move enabled the chain to add six additional checkouts at the front of the hypermarket and also provided more space for paper goods adjacent to the health & beauty aids section.

Other differences between the two Hypermart USAs:

- Unlike the Dallas hypermarket which has a salmon-colored ceiling, the Topeka store sports a white ceiling. Company officials are still debating which color they prefer: Walton mentioned that he liked the pinkish salmon in Dallas, while other executives felt that the white ceiling provided the Topeka unit with a "brighter" look.
- The Topeka hypermarket is the first in which Wal-Mart sources all supermarket products itself, with essentially a three-man buying operation headed by Rich Donckers, vp, food retailing. The Dallas Hypermart USA is a joint venture with Cullum Cos., a supermarket operator.
- The frozen foods department was moved to the front of the hypermarket after executives found that customers in Dallas tended to shop these items last to reduce the possibility of defrosting while shopping and waiting at checkout.
- The Topeka hypermarket's roughly 5,500 sku's of food items is about half the number stocked at the Dallas unit as Wal-Mart continues to fine-tune its venture into grocery retailing. The chain is targeting a 50-50 sales mix between food and general merchandise.

"So far, there's been no resistance to crossover shopping between general merchandise and food—shoppers are even buying apparel and food together," said Bill Fields, executive vp, merchandise and sales, Wal-Mart Stores. "We're pleasantly surprised with our success in this area."

Observation of shoppers' carts during the grand opening illustrated Fields' point. Some typical shopping baskets included food, comforters and H&BA items; cases of motor oil, cooking oil and frozen pizza; pillows, pineapples and laundry detergent; and, infants' apparel and groceries.

Gold Circle Spin-Off Possible

(Continued from page 3)

Analysts who believe that Federated will try an LBO said that the chain would be among the first divisions to be sold to finance such an effort.

While the sale of Gold Circle would be just a drop in the bucket toward financing either an LBO or Campeau's acquisition—analysts said the chain could generate about $500 million—selling the division would be viewed favorably by Wall Street.

"I think Gold Circle should have been disposed of years ago," said Harry Mortner, analyst with C.J. Lawrence.

"Gold Circle has been something of a poor sister in getting capital and management expertise at Federated," Mortner noted, "but if they were any good at discount retailing, the company would have grown like other discounters that started their businesses in the mid-60s."

During the past few years Gold Circle has met several directional and competitive challenges to which it has only been able to partially adjust.

The discounter doubled store count to 76 by acquiring the Atlanta-based Richway chain, trying to meld enough of the Richway staff into buying operations to educate Gold Circle staff on merchandising differences of the Deep South.

After the acquisition, a $50 million prototype plan aimed at developing apparel and home goods volume increased sales in those departments, while hard goods suffered from the shift in emphasis.

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K mart Eyes Purchase of Interest in Makro

(Continued from page 1)

date may now be in late fall.

Makro, owned by SHV Holdings, is a European-style operation with as much in common with American hypermarkets as it has with other American wholesale clubs.

Unlike other clubs, Makro carries a full line of general merchandise, rather than a carefully pruned selection, which is generally considered a key distinction between the hypermarket and warehouse club concepts. Overall, it stocks about 20,000 sku's, compared to an average of about 4,000 at other wholesale clubs. It also carries a wider selection of grocery items, including fresh meat, and operates under a business-member-only philosophy.

If Makro were to end its strict membership requirements and throw the doors open to the public, the wider selection would make it nearly indistinguishable from the average hypermarket, apart from a size difference (Makro's outlets range from 130,000 square feet to 180,000 square feet; hypermarkets in Europe and America are generally larger, in the 200,000-square-foot range.)

The operations and management expertise K mart would gain through the purchase are particularly valuable to the company. Its major competitor, Wal-Mart, is well-established on the cutting edge of retailing with its Sam's Wholesale Club and Hypermart USA divisions, while K mart has lagged. K mart is at least a year behind Wal-Mart in the hypermarket business, and much more than that in the warehouse club industry. The acquisition of Makro could shrink that gap considerably in both areas.

Makro, with locations in the Atlanta, Philadelphia, Cincinnati and Washington D.C., markets, was founded in 1979 and has reportedly shown a profit only in the last two years, which is not unusual for high-volume, low-margin warehouse operations. It has a reputation as a canny merchandiser of bulk foods, as well as a competitive general merchandiser, with a special emphasis on apparel.

The company, led by chairman Joe Nusim, projected 1987 sales of about $400 million from its five locations, and announced an ambitious expansion program for 1988 and 1989, which would see new outlets in Baltimore, Cleveland, central New Jersey, Hartford, Conn., and Boston.

No purchase price was available and spokesmen for both companies declined further comment.

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ALCO Tests Mini-Hypermarkets

Unveils 3 Low-Cost Formats

By Mary Ellen Kelly

ABILENE, Kan. — Duckwall-ALCO has laid the groundwork for cultivating downsized hypermarket-type stores, without severing its small town roots.

The extent of the transformation hinges on the results of several new prototype stores, especially ALCO's three-month-old C.O.L.A. (Cost of Living Adjusters) everyday low priced, food and general merchandise store.

Robert Soelter, president and chief executive officer, said current and proposed ALCO test stores could result in a "mini-hypermarket" prototype, complete with some combination of general merchandise, groceries, automatic bank teller machines, fast food outlets and hair salons.

(Continued on page 57)

ALCO
Our Mission
"To Operate a Retail Store that Satisfies the Customer with Excellent Service, Quality and Price."

Robert Soelter, president and ceo, Duckwall-ALCO. (DSN photo)

Auchan Chooses Chicago For Its 2nd Hypermarket

By Laura Liebeck

HOUSTON — Auchan, a $7.5 billion French retailer that plans to launch its first U.S. hypermarket here late this year, will also open a second European-style hypermarket in a Chicago suburb, probably sometime in the early part of 1989.

Texfield Inc., Auchan's American subsidiary, recently located its headquarters here and will be managing the Houston operation. A separate company will oversee the construction and management of the Chicago store, the first hypermarket in Illinois.

The growing list of U.S. hypermarkets now includes Biggs, which plans to open its second unit in Cincinnati this fall; Carrefour, which opened its first unit in Philadelphia earlier this month and plans a second unit in Brookhaven, N.Y., sometime next year; and Wal-Mart, which unveiled its Americanized version of a hypermarket in Garland, Texas, last December, followed by one in Topeka, Kan., in January. Wal-Mart's Hypermart USAs are also slated for Arlington, Texas, and Ferguson, Mo., later this year.

The two Auchan hypermarket oper-

(Continued on page 4)

Gold Circle Goes on Block in Latest Move to Thwart Takeover

CINCINNATI — In its continuing efforts to thwart the takeover attempts of Toronto-based Campeau Corp., Federated Department Stores unveiled a restructuring plan to sell off its Gold Circle discount chain and other non-department store assets.

The $11 billion retailer said it may also seek a "white squire" by issuing new preferred stock with a value of 15 percent of total outstanding shares in the company.

Such an action would frustrate Campeau, which had raised its bid to $66 per share, or about $5.84 billion, from its earlier $47 per share tender offer, because a Delaware anti-takeover law requires a company to own over 85 percent of stock in the targeted firm.

Chicago-based JMB Realty is said to be interested in assuming this white squire stance.

A Gold Circle leveraged buyout led by management is also being considered to preserve the chain, one source at the 76-unit discounter said.

The proposed sale of non-department store divisions—including Gold Circle, Ralph's supermarkets, Main-Street and Children's Place apparel stores—would provide Federated with cash to finance a possible LBO. Campeau had stated that it too would sell these divisions following a merger.

May Department Stores and Dayton Hudson Corp. have repeatedly been mentioned as among the most likely suitors for Federated divisions.

Department store divisions of Cam-

(Continued on page 58)

Buyers' MAGIC Goal: Find the Right Denims

LOS ANGELES — Discounters plan to hit the Fall 1988 MAGIC (Men's Apparel Guild in California) Show with dollars available for both immediates and back-to-school fashion trends.

The March 5 to 8 show at the convention center here will also allow discounters to confirm earlier commitments, while gaining some direction in fall colors, styles and denim treatments.

Most discounters told *DSN* that while denims will continue to be sought for back-to-school, they are still waiting to see just which treatment—acid wash, glacier wash, double dipped or stone wash—will be the most important.

For Manny Francione, vice president and merchandise manager for boys' and men's wear at Zayre, there is "no question [denim] is moving toward a darker finish." However, he said that at discount chains the trend may not shift as quickly as it might at department stores.

Currently, Framingham, Mass.-based Zayre is selling the light acid wash, glacier wash and some darker denims, Francione said. While piece goods and style commitments have been made for fall denims, he said the discount chain is still reviewing which finishes to go with—and in fact, may decide to go with a number of different finishes for back-to-school.

"We are trying to leave ourselves as flexible as possible" with denims," noted Andrew Hess, divisional merchandise manager of men's and boys' at New Castle, Pa.-based Fisher's Big Wheel.

"The big thing for me [at MAGIC] is to try and fine tune this," said Jim Feldt, boys' divisional merchandise manager at Hills, of the denim dilemma.

(Continued on page 31)

Fashion Finds Discount Stores & Vice Versa

Influenced by new store concepts, like Hypermart USA (above), and driven by the emigration of name brands from department stores, more moderately-priced fashion apparel is selling at discounters than ever before. See page 13 for DSN's *expanded apparel coverage.* (DSN photo)

Hypermart's Apparel Influences Wal-Mart

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MARKETWATCH

Meijer, Meyer Operate 24-Hours-a-Day

GRAND RAPIDS, Mich. — Meijer announced earlier this month that it will begin 24-hour-a-day operations sometime this spring at its 47 Midwest hypermarket-type superstores. An executive at the company, who asked to remain anonymous, told *DSN* that supermarket competition was the key factor in prompting the expansion of store hours from its present 18-hours-a-day to the new format. Meijer stores range up to 247,000 square feet and sell both general merchandise and groceries. In order to staff the stores for the increased hours of operation, Meijer is seeking to hire 200 more managerial employees. Each store now has 45 to 50 store managerial employees, ranging from line manager to store manager. Meijer is running a house ad in store circulars to recruit candidates for the available positions. In a related development, Fred Meyer, Portland, Ore., is also now operating, in select locations, the food portion of its combined general merchandise/grocery stores on a 24-hour-a-day basis.

Price Puts Pharmacy On Back Burner

SAN DIEGO — Price Club's reluctance to pursue its pharmacy service has been reaffirmed with the departure of director of pharmacy operations Chuck Augello. Although Augello had been with the company since last spring when Price Club opened its first pharmacy, the warehouse club leader has failed to further pursue this customer service. At Price Club's annual shareholders meeting, president Robert Price said: "We have not made up our minds at all on whether we should pursue the pharmacy business." Company attention has been turned instead to the 11 optical departments, and a planned lens crafting division. According to a company executive, Augello's position has not been filled.

LBO In the Air at J.P. Stevens

NEW YORK — A J.P. Stevens management group led by company chairman Whitney Stevens has announced its intention to attempt a leveraged buyout of the company. Under the proposal, an employee stock ownership plan (ESOP) would own a majority of shares in the company, one of the country's leading producers of home textiles. According to the company, the ESOP would merge with the existing company, and purchase a majority of the stock of the resulting merger. All non-union Stevens employees would be eligible to buy into the new corporation; participation by union employees would be subject to negotiation. Since management, if the buyout is successful, will remain virtually intact, observers expect little if any impact upon Stevens' marketing position. Service of present customers should not be affected. However, some analysts have suggested that management, who will be major stockholders if the deal goes through, may be getting the company at bargain-basement prices. That could lead to bids from outsiders and a possible battle for control.

Sears to Open NYC Home Fashions Unit

WAYNE, N.J. — Sears has announced plans to open an upscale home fashions store in midtown Manhattan in New York City. The store will be aimed at upscale apartment dwellers, and will be located in the Windsor Court apartment and retail development located between Lexington and Third Avenues at 31st Street. According to New York region general manager W. Stan Knipe, the store will feature a tightly focused selection of bed & bath, window covering and floor covering products in addition to lifestyle furniture and other related merchandise. The store, as yet unnamed, will open in late spring of this year.

Report Criticizes RPM Enforcement

WASHINGTON — Reagan administration officials have left the nation's discount chains vulnerable to anticompetitive resale price fixing conspiracies, the Senate Judiciary Committee charged this month. In a new report sharply critical of Justice Department enforcement policies during the past seven years, the Senate panel called for prompt Congressional enactment of legislation designed to protect retailers from termination for refusing to participate in resale price maintenance schemes. The bill, a top legislative priority at the International Mass Retail Association, would for the first time codify the long-standing legal principle that RPM is a per se or automatic violation of federal antitrust laws. Under this standard, victims of resale price fixing need only prove the existence of a resale price maintenance conspiracy in order to obtain relief from the courts.

FOR THE RECORD

SportMart, the 15-store chain of specialty sporting goods stores, is headquartered in Niles, Ill., not Niles, Mich., as was incorrectly reported in *DSN*'s Feb. 1 article on K mart's venture into sporting goods membership warehouse clubs.

Bradlees' Union Employees Applaud Efforts to Fend Off Dart Takeover

WASHINGTON — The union representing some 17,000 Bradlees full- and part-time employees has joined forces with Stop & Shop Companies management in opposing the attempted Dart Group takeover.

An ad hoc committee of the United Food and Commercial Workers was set to meet this month to consider strategies and options. Protecting the jobs of the 35,000 workers (including supermarket employees) in the Stop & Shop locals is the main goal, the union said in a release that demanded job protection guarantees.

The union's move followed the Stop & Shop board's rejection of Dart's latest offer of $37 a share, up from $31. The offer values the supermarket and discount store operator at better than $1 billion.

Corporate raiders often sell store units in order to pay down acquisition debt, said Susan Phillips, a spokeswoman for the union. And those spun-off stores often go non-union in the process, she said.

As an example, Phillips cited the Gemco discount stores that Lucky Stores sold in 1987 after it went private in the face of a corporate raid. The union lost 14,000 jobs at some 80 stores. Target reopened about 50 of the former Gemco units, but their employees are non-union, said Dave Barry, a Los Angles representative for UFCW. Union scale at Gemco was about $8 an hour, Barry said, or around twice that at Target.

The union is concerned that Bradlees also would go non-union if sold, either by a corporate raider or by the parent company in a restructuring move, Barry said.

Most discount store employees, with the notable exceptions of Caldor and Bradlees, are non-union, Phillips said.

So far, the union hasn't considered specific ways of aiding Stop & Shop management in fending off the raid of the Dart Group (headed by Herbert Haft and his son, Robert), Phillips said, but has offered, in principle, to work with the company.

William J. Olwell, UFCW executive vice president and director of collective bargaining, praised Stop & Shop's rejection of the Dart bid. "We believe that the continued operation of Stop & Shop as an independent company is in the best interest of the employees, the shareholders and management alike.

"We have strongly restated our demand that all alternative options Stop & Shop considers must include full protection for the employees and their union contracts," Olwell said in a release.

Since Dart put the company in play last month, Stop & Shop stock has shot to $36.88 a share from $20.25. Dart owns about 3 percent of the 27.9 million shares outstanding.

In hopes of fending off Dart, operator of Crown Books and Trak Auto stores, Stop & Shop is considering several options: selling the company, taking it private in a leveraged buyout or recapitalizing it.

Acceptance of 35mm Keys Market

New Products Await Photo Buyers

CHICAGO — With the photo industry coming off a fine year fueled by the success of a new generation of point and shoot cameras, buyers can expect a raft of new products when they assemble here for the 64th annual Photo Marketing Association Convention Feb. 28 through March 3.

Among them will be the first "disposable" camera with a built-in flash unit, a larger selection of dual-lens automatic 35mm cameras, computer-imaging color enlargers for minilab systems and various new films and accessory products.

However, the show may go on without much discount store involvement. Many buyers said they will be staying home, feeling that they saw enough at the Consumer Electronics show in Las Vegas last month and that they will be able to catch up on any new products from sales reps.

Most of those buyers are also responsible for at least some CE areas, so their reluctance to attend the show is understandable. Most of their key photo suppliers also attend the CE show and may have previewed the new products then.

Other discount store buyers, mostly photo specialists, do plan to attend the show. One, who asked to remain anonymous, said that he attends every year and finds the show important to him in gauging the photo market as a whole, as well as to see the whole range of new products available to his company.

Joe Tannenbaum, photo buyer for Worthington, Ohio-based Gold Circle, agreed with that point of view. "I use the show to gain an overall view of the market as it currently stands," he said. "I just got back from the Orient a month ago, but this is a necessary refresher."

That could be particularly important this year. Although the economy appears to be strong and consumers seem not to have been scared away from spending disposable income, that could change. If it does, photo could be one of the categories hurt most.

Tannenbaum said that, at least in the higher price points, the damage may have

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Discount Dept. Store Sales Surge 13.2% in November

Nationwide DSN Report

Retail sales at discount department stores surged 13.2 percent last November to $6.59 billion, according to U.S. Commerce Department figures released this month.

For 11 months, sales totaled an unadjusted $57.45 billion, making discount department stores the largest retailing category in the general merchandise group.

Receipts for the entire general merchandise group totaled $16.34 billion, unadjusted, in November, up 17.6 percent from October's $13.90 billion. Through November, retail sales in the general merchandise group totaled $138.42 billion, up 5.5 percent from the same 11-month period in 1986.

Preliminary year-end sales totals for 1987 will be available next month.

Total retail sales in November, including automobiles, were $125.2 billion, unadjusted, down 1.6 percent from October, but up nearly 3.2 percent from November 1986. Through the month of November, retail sales totaled $1.35 billion, up 3.8 percent for the 11-month period a year ago.

Retail sales, excluding autos, totaled an unadjusted $99.67 billion in November, up less than 1 percent from October, and up 2.6 percent from November 1986. Sales for 11 months of 1987, excluding autos, rose 4.2 percent to $996 billion.

General Merchandise Sales

The largest November sales gain in the general merchandise group was recorded by national chain department stores (such as Sears). The smallest gain, 3 percent, was recorded by variety stores, which posted $713 million in November sales and $7.29 billion for the year so far, a 2.4 percent gain over the same period in 1986.

Sales at national chain department stores surged 22.3 percent in November, to $3.65 billion over October's total of $2.99 billion. The 11-month sales total for these stores was $30.77 billion.

No annual sales comparisons can be made for discount department stores, conventional department stores or national chain department stores as 1987 was the first year the Commerce Department broke out these retailing formats from the general merchandise group. Seasonally adjusted numbers won't be available in the near future either, as it takes several seasons of recorded sales results to compute a seasonal adjustment factor.

November sales at conventional department stores rose 18.6 percent, to $4.77 billion. The 11-month total was $38.94 billion.

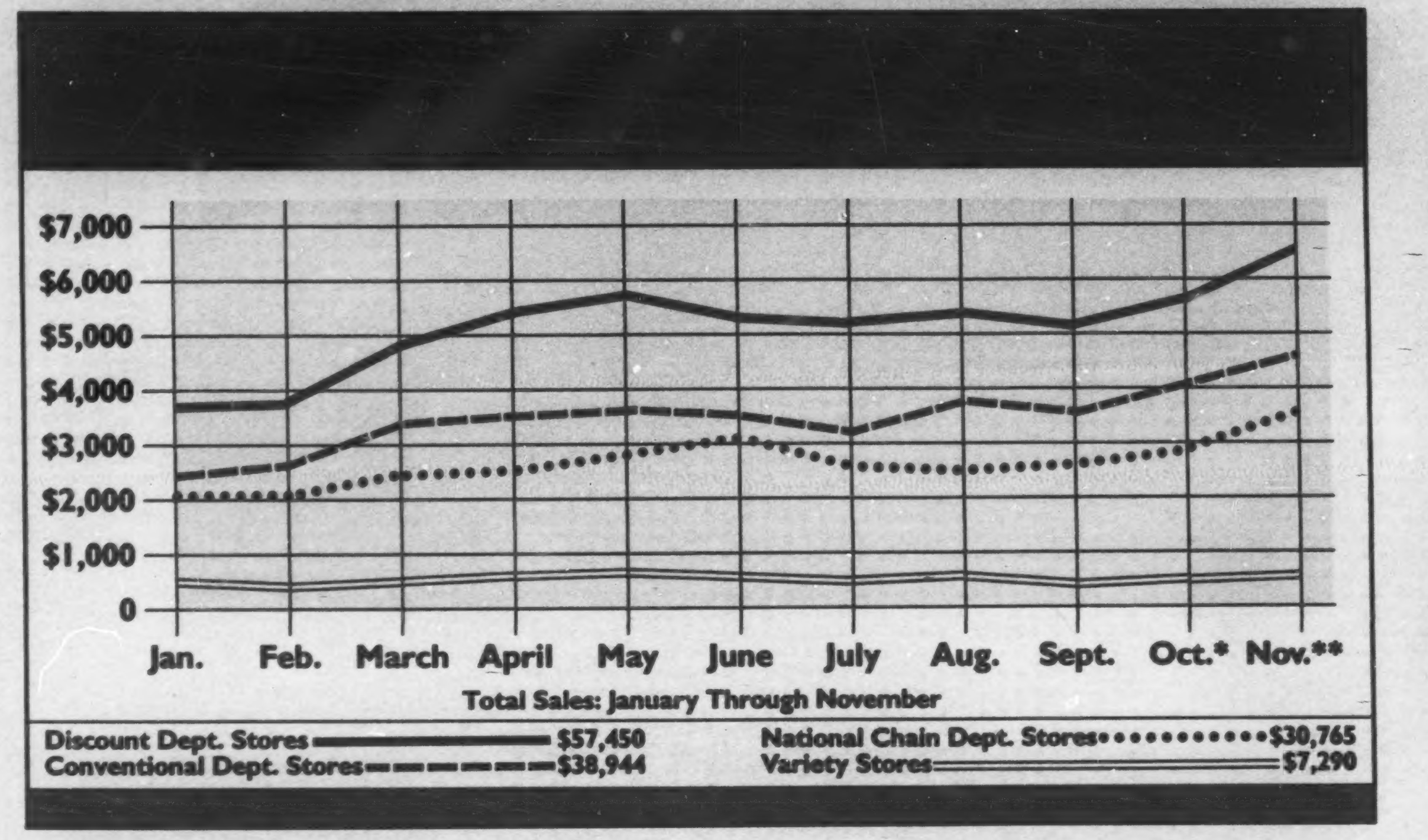
Miscellaneous general merchandise stores recorded sales in November of $1.6 billion compared to the previous month's $1.28 billion. The 11-month sales total was $12.97 billion, up 4.4 percent from 1986's $12.4 billion.

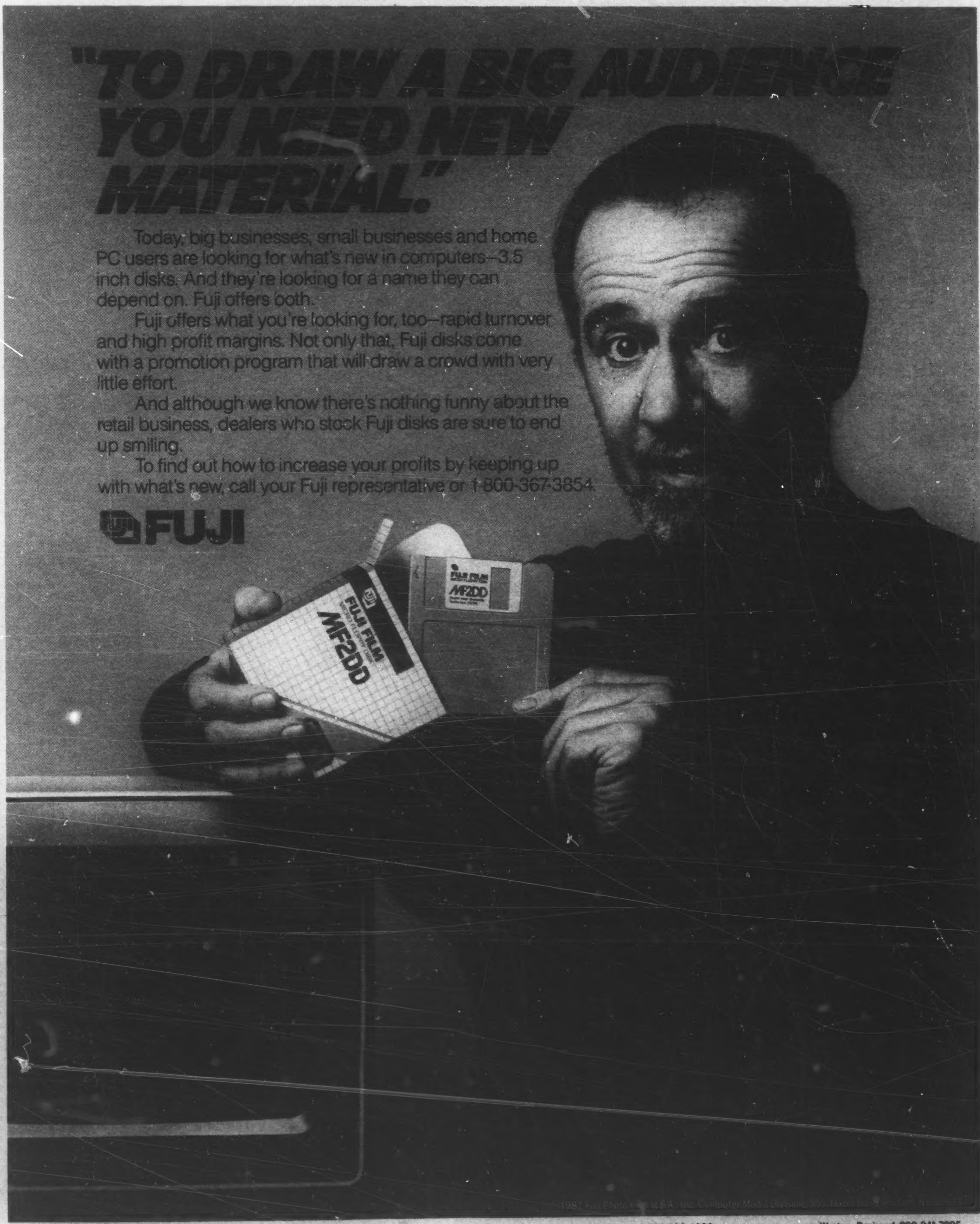
Sales at furniture and home furnishings stores were virtually unchanged from October results, at $3.75 billion, but were up by 4.4 percent for the 11-month period in 1986, to $39.25 billion.

At household appliance stores, November sales bettered October's receipts by 13.5 percent, a 7.6 percent increase over November 1986. And for 11 months, sales were 2.2 percent ahead of the corresponding period a year before.

Radio and TV stores recorded a November sales gain of 8 percent, but a 13.8 percent fall from November 1986. The 11-month category sales total, however, was up 2 percent from the same period in 1986.

At apparel and accessory stores, November sales hit $7.56 billion, up 4.2 percent from October, and even with receipts from November 1986. For 11 months, sales were $73.2 billion, a gain of 5.5 percent over the 1986 period.

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Discounters Increase Boys' Fashion Due to Young Men's Style Influence

Nationwide DSN Report

American boys are becoming pint-sized fashion plates, and they're looking to what their older brothers are wearing for fashion direction.

In turn, discounters and off-price apparel chains have stepped up their fashion offerings as a percentage of the total boys' wear mix.

Based on the results of a new *DSN* study, it is clear that young men's styling, with its fashion-forward looks and brand label consciousness, is influencing retailers' boys' wear departments to the degree it influenced men's wear a couple of years ago.

According to the survey, which polled general merchandise managers, divisional merchandise managers and buyers of boys' wear at 16 upscale discounters and off-pricers, representing close to 2,000 individual stores nationwide, virtually all retailers feel that the influence of young men's fashions is important to their boys' department.

About seven of 10 respondents said that young men's styling was "very important" in its influence on boys' apparel merchandising. The remainder said that young men's looks were either "important" or "somewhat important"; none felt that the influence was unimportant.

One buyer may have defined the term "importance" as used by merchants when he said, "I think we've found that when fashion is right, we can command a higher retail price point."

Overall, larger chains have reacted more strongly to the influence, with nine of 10 labeling it "very important" vs. only about 40 percent of smaller chains (with less than 50 stores).

On the whole, larger chains seemed to be far more interested in fashion for boys than were smaller chains. For instance, when asked if any new brands had been added to their departments, about eight of 10 buyers for large chains said "yes," vs. about six of 10 smaller chain buyers.

Overall, about 70 percent of the retailers questioned had added new resources, the most popular of which were Bugle Boy, Santana, Pacific Coast Highways and Chams.

The contrast between larger and smaller chains was even more marked when the buyers were asked if they were incorporating the dress-up trend into their spring assortments. Less than one-third of small chain buyers are introducing the look vs. almost 80 percent of buyers at larger chains. At least in the matter of this one trend, smaller retailers appear to be less fashion forward than their larger counterparts.

Brand names, as in most fashion situations, are important to the overall fashion image. Very few buyers disputed that (those that did, presumably, have a vested interest in their substantial private label programs).

However, enthusiasm for brands was not as high as might be expected. Exactly one-half of all buyers responding called brand names "very important," while about one-quarter replied "somewhat

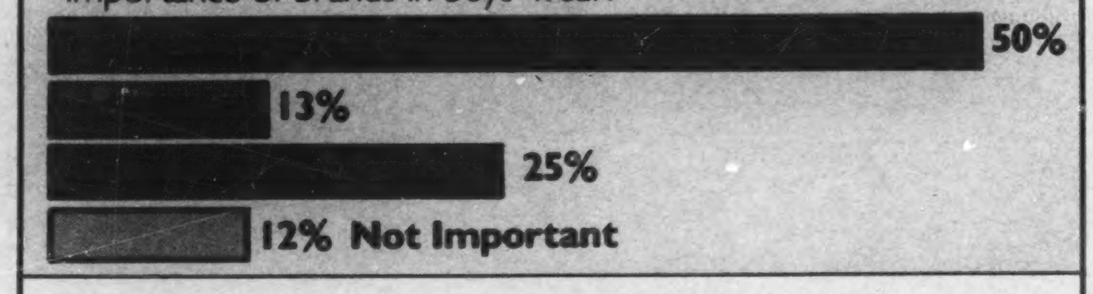
(Continued on page 18)

NEW YORK — This Jerard Less/*Discount Store News* survey is based on telephone interviews with men's and young men's wear divisional merchandise managers, general merchandise managers and buyers at 16 general merchandise discount and off-price apparel chains nationwide. The phone calls, placed during the month of January, were preceded by letters and written questionnaires. Respondents were promised complete anonymity. This report was supervised by *DSN* senior editor Kenneth M. Chanko and written by *DSN* associate editor Peter Hisey.

The Importance of Boys' Wear Brands

The varying availability of brands to different merchants influences the degree of importance those retailers place on brands. Still, nearly one-half of respondents described boys' wear brands as 'very important.' Brands most frequently cited were Lee, Bugle Boy, Levi, Ocean Pacific, McGregor, Shah Safari, Rustler and Health-Tex.

Importance of brands in boys' wear:



Study based on telephone interviews with divisional merchandise managers and buyers of 16 discount department store, mass merchandiser and regional apparel chains nationwide.

Source: Jerard Less Inc. for DSN, January 1988

McGREGOR
WHAT ALL

Discounters Plan to Add Fashion, Floor Space in Boys' Wear

Nationwide DSN Report

Boys' wear is booming at many discounters and off-pricers, with buyers planning for substantially more open-to-buy for fall 1988 than last year, according to an exclusive study commissioned by *DSN*.

The study, conducted by Jerard Less Inc., a New York-based retail apparel consultant, also revealed that many chains have expanded their square footage for boys' wear over the past 12 months, and most intend to increase their commitment to fashion even further.

When asked whether fall 1988 open-to-buy has increased, stayed the same or decreased, all but one respondent indicated more boys' wear will be bought this year than last year.

Interestingly, smaller chains (50 units or less) were of two minds: 50 percent planned to increase their open-to-buys while 33 percent planned to reduce them. Only 17 percent said that they would maintain last year's level. At larger chains, roughly one-quarter planned to reduce expenditures while the remainder were evenly split between maintaining and increasing their open-to-buys.

There was a consensus among the respondents on the overall direction of the boys' category—over 90 percent of retailers overall said they planned to increase their open-to-buys in boys' wear. Smaller chains were unanimous in their support for the category; larger chains were only marginally less so.

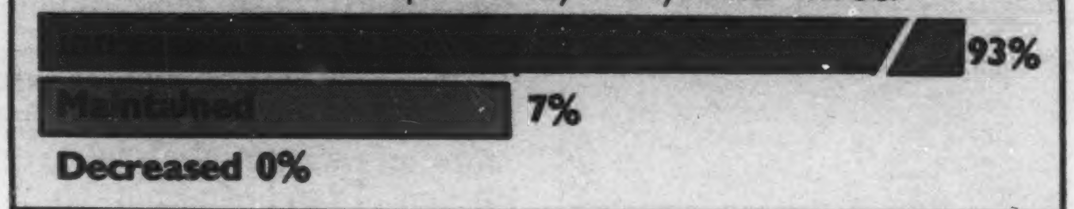
"We need to gear up in bigger boys' with young men's styling," a buyer for a smaller chain said. "That's what customers want: casual, not too sophisticated, at affordable price points."

However, only one-quarter also planned to increase the amount of space dedicated to boys' wear. About three-quarters of respondents said they planned no change in the upcoming year in square footage; about one-quarter said that they had made changes in the past year, adding an average of 15 percent to the space allocated to boys' apparel. More smaller stores bulked up their departments than did larger chains, by almost 2 to 1.

Retailers' Fall Buying Plans

Nearly all retailers are buying more boys' wear.

For fall of '88, overall open-to-buy in boys' wear will be:



Study based on telephone interviews with divisional merchandise managers and buyers of 16 discount department stores, mass merchandisers and regional apparel chains nationwide.

Source: Jerard Less Inc. for DSN, January 1988

However, a clear majority of buyers wished they could add more footage. Asked if they felt an increase in square footage was needed, about 70 percent of small chain buyers and a little over half of large chain buyers said "yes."

In lieu of added space, most buyers seemed intent on at least upgrading their departments. "Merchandise just hanging on racks doesn't look appealing," a buyer said. "That's why we're upgrading visually with posterboards and showing more coordinating on mannequins."

A little over seven of 10 buyers said they planned to upgrade fixtures in the department, while a slightly lesser percentage said they planned to upgrade visual merchandising. Large chains were more likely to favor new fixtures; smaller chains were slightly more likely to favor visual merchandising aids.

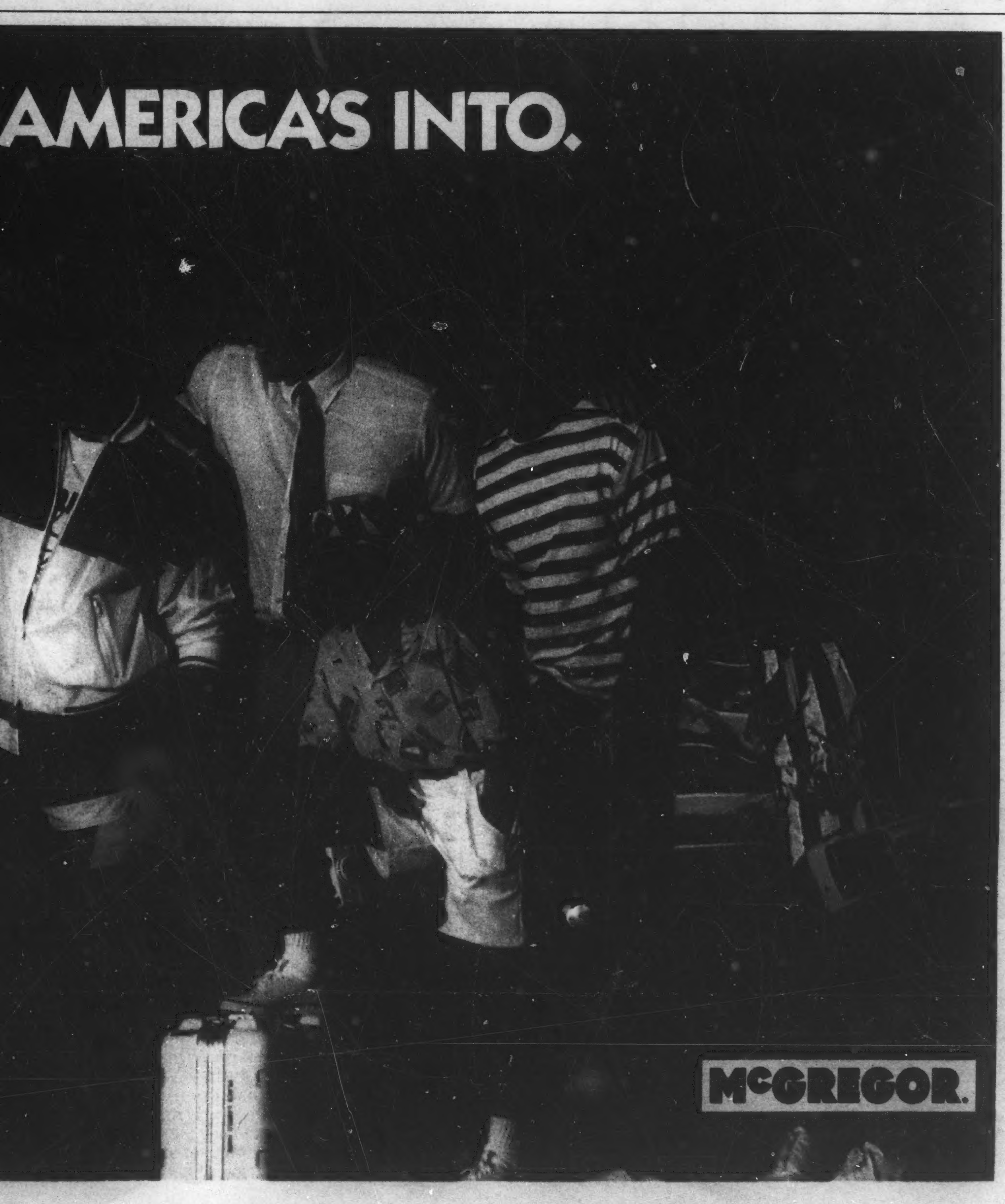
"We are enabling ourselves to do more classification by four-ways and tri-arcs [fixturing]," one buyer for a large chain noted. "We are 'concept-selling' much more and sales are great."

A clear majority—about eight of 10 buyers—reported that they had broadened their product mix in boys' wear over the past year, while a lesser majority (about 55 percent) planned to enlarge their merchandise assortment this year. Smaller chains were slightly more likely to have broadened assortments in 1987 and/or to be expanding them in the upcoming year.

Areas being expanded include outerwear, yarn-dyed flannels and novelty T-shirts and "more merchandise influenced by young men's." Clearly, buyers feel that increased fashion orientation has beefed up the boys' apparel market and will continue to do so.

All retailers seemed to be equally concerned with fashion. A little less than three-quarters of all buyers divided their open-to-buy into fashion and basics, with larger chains slightly more likely to do so.

Large or small, the fashion/basics ratio was constant, with slightly over 50 percent allocated to fashion. That percentage was up roughly 20 percent over last year among all retailers, although larger chains had increased a bit more than smaller chains.



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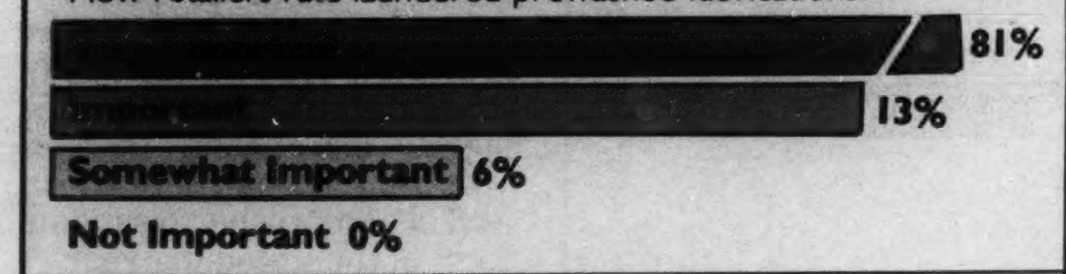
Young Men's Looks Impact Boys' Wear

The influence of laundered prewashed fabrications in apparel continues to be very important in boys' wear.

How retailers rate laundered prewashed fabrications:



Study based on telephone interviews with divisional merchandise managers and buyers of 16 discount department store, mass merchandiser and regional apparel chains nationwide.

Source: Jerard Less Inc. for DSN, January 1988

Young Men's Influences Boys' Wear

(Continued from page 16)

important." The other one-quarter of respondents were equally divided between those who felt brands were "important" and those who didn't think they were important.

Larger stores, which could be expected to concentrate more on private label, were a bit more brand conscious than smaller stores. However, they were also more likely to be lukewarm on national brands. Overall, nearly three-quarters of small chain buyers rated brands as either very important or important, compared to less than 60 percent of larger chains.

A large part of the problem is, of course, that many manufacturers won't sell to the discount market. "Health-Tex is most wanted," a buyer noted. "However, we are having trouble getting it. We can only get closeouts."

Brands mentioned most often as important included Lee, Levi, McGregor and two fashion-forward manufacturers—Bugle Boy and Ocean Pacific. Shah Safari, Rustler and Health-Tex also received mentions from buyers.

Far more large chain buyers reported customer requests for specific brands. While a little under 60 percent of the smaller stores' buyers said that customers were asking for specific brands, fully three-quarters of larger stores reported the same behavior. Overall, two-thirds of buyers reported customer requests for brands.

Brands most requested included Ocean Pacific and Lee (tied for No. 1), as well as Bugle Boy, Levi, Wrangler and Health-Tex.

Fashion Turnaround

What has prompted this widespread fashion turnaround in what was previously a very basic market?

"I feel the turning point in boys' was in 1984, with the Michael Jackson hype," one buyer replied. "[That proved that] anything new and different sells."

"Big boys' has to have that young men's look now," another said, adding that "cutesie" looks for boys don't make it any more, except occasionally in certain areas, like T-shirts and sweats.

Cotton Goods Sales

Cotton goods have become increasingly important to the domestic textile market as a whole, and boys' apparel is no exception. Because of the booming sales of jeans, about half of all bottoms sold at the stores contacted were made of 100 percent cotton. Another 35 percent of bottoms consisted of chief value (at least 50 percent) cotton.

About a third of tops were 100 percent cotton while nearly half overall were made of chief value cotton.

Cotton pants appeared to be far more important to small chains than to larger stores (about 60 percent of the mix vs. 40 percent), while chief value bottoms were slightly more popular at large chains.

Pure cotton was of less importance in the tops market, but once again, smaller chains carried more. Larger chains relied far more heavily on chief value cotton tops (over one-half of their tops vs. less than one-third at smaller chains).

The laundered/prewashed look was rated as very important by about four out of five buyers polled, with the remainder calling it "important" or "somewhat important." Smaller chains, which favored cotton heavily, were a little more enthusiastic about laundered products than larger chains. Overall, the look seems to be hotter than ever.

Not so the baggy look. Buyers' responses were contradictory concerning their open-to-buys for oversized, full-cut apparel. While about four of 10 said they were increasing those open-to-buys for the fall, nearly one-third reported that they were decreasing the amount set aside for oversized garments.

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ALCO Tests Mini-Hypermarkets, Debuts Low-Cost Formats

(Continued from page 1)

Unlike the huge 200,000-square-foot-plus hypermarkets operated in the United States by Wal-Mart and several European retailers, ALCO intends to work within a much smaller store size that can be comfortably browsed by its small town shopper during a single store visit. The largest ALCO stores are about 50,000 square feet.

While the company's 21 Duckwall variety stores are not involved in the testing, the majority of ALCO's 128 general merchandise discount stores within its 13-state, central U.S. trading area are likely to be affected by the current prototypes.

Regardless of how the store format changes, the chain's primary focus will be to cut costs. "Cost containment is Wal-Mart's strength and it has to be our strength if we are to compete," Soelter said.

Cost reduction experiments are being conducted at the three prototype stores currently in operation:

- The single C.O.L.A. prototype features general merchandise and food with everyday low pricing;
- Another prototype, now in operation at 14 ALCO stores, also sells general merchandise and food but utilizes a promotional pricing philosophy;
- The third prototype is a downsized version of an ALCO discount store aimed at small markets. Three such stores are currently open.

The C.O.L.A. prototype was opened three months ago in Mineral Wells, Texas, a town 70 miles west of Dallas. The everyday low-price policy has cut advertising costs by one-third, according to Leonard Johnsen, vice president of operations, by eliminating the cost of 36 circulars annually. Circulars were replaced with limited ROP newspaper and radio advertising.

The store is also experimenting with the cost-saving capability of scanners and shelf-edge pricing. The company is likely to go chainwide with scanners this year, a $10 million to $12 million investment, Soelter said.

The use of cut-case and pallet displays in the grocery area are expected to further reduce in-store labor costs.

In addition to making the obvious store changes needed to convert a unit from ALCO to C.O.L.A., such as the addition of groceries and the everyday low-price policy, the company has also altered general merchandise adjacencies and displays.

Mirroring a typical Wal-Mart store, the C.O.L.A. unit has raised gondola heights to as high as 9 feet from the standard 66-inch fixture and makes use of wall space to enhance the mass display impact. Endcaps were removed from the back of gondola runs because they were found to be an inefficient use of space.

New back-feed merchandise replenishment systems were installed for the furniture, bicycle and motor oil categories. Horizontal rollers feed merchandise directly from the stockroom to the shelves to facilitate restocking bulky or high-volume items.

Security monitors were installed at the C.O.L.A. store and 40 other ALCO locations as yet another approach to lower costs. The monitors should improve even last year's shrinkage rate. Soelter said preliminary figures indicate that 1987 marks the first time in company history that the chain recorded less than a 2 percent shrinkage rate.

"If the C.O.L.A. concept is more productive than the ALCO concept, then we will certainly go ahead with it," Soelter said.

The similar food/general merchandise prototype that employs a promotional pricing structure has been installed at 14 ALCO locations, scattered in Texas, Colorado, Illinois, Kansas and Arkansas. These units continue to operate under the ALCO name.

Downsized ALCO test stores—17,000 square feet of selling space within a 22,000-square-foot facility—have been opened in Burlington, Colo., Medicine Lodge, Kan., and Gordon, Neb. The company hopes that towns such as these will be too small to attract competing retailers.

The seven ALCO stores to be opened during 1988 will all be downsized, Soelter said, adding that it is possible yet another prototype store might be needed to test the performance of food within the smaller ALCO units.

Future development of the C.O.L.A. prototype will be announced as sales and earnings results at the Mineral Wells store become available, probably by the end of the first quarter. Preliminary reports suggest overall performance has significantly improved since the reformatting.

The Mineral Wells location was selected for the test because it was considered to be the toughest proving ground in ALCO's territory. The C.O.L.A. store is a conversion of one of ALCO's smaller stores and is side-by-side with a Wal-Mart unit, the chain's toughest competitor.

Regardless of the success of the grocery department, there are limitations to the number of locations that ALCO can incorporate food into its merchandise mix. Intense local competition or lease agreements will dictate just how far ALCO can go with food.

Big and Tall Lures Discounters

(Continued from page 3)

shipping dates on merchandise already ordered, BATMAN saw a lot of orders being written.

Ames, with a half dozen executives at the show, is one of the few full-line discounters that got into this business seriously three years ago.

Chuck Rilling, vice president, gmm of men's and boys' wear, said that Ames began segregating big-sized men's wear two years ago.

Now, said Philip Marshall, Ames' dmm, men's, there's a big men's department in every one of the chain's 342 units.

Rilling said that Ames is now looking at getting into the slightly more difficult tall men's business.

Ames has also recently moved a buyer, Richard Bradley, into buying big men's—now the principal category for which he's responsible.

"We expect to see a 20 percent to 25 percent yearly sales growth in this business over the next couple of years," said Rilling.

Ames' mix in the segment is 60 percent private label, 40 percent branded. The aim is to "bring more casual looks into the mix," Rilling said.

Al Cohen, bottoms and outerwear buyer for Jamesway, said he was at the show looking for immediate delivery on some shorts and pants going forward into fall. Active sportswear from such names as Slazenger and Dunlap were on his buying list.

Jamesway has recently broken out big sizes, but like Ames and several other full-line discounters, Jamesway hasn't yet tackled the tall part of this business yet.

Solo Serve, the San Antonio, Texas, off-pricer that will be opening its 17th unit in April, is getting into the big and tall men's business for the first time for fall 1988, said Barry Levine, men's buyer.

This year was the first time Solo attended BATMAN, and Levine said the chain is getting into this business for "the same reason everyone else is—it means added business."

DISCOUNT STORE
NEWS

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Vol. 27, No. 5 Feb. 29, 1988

Gateway Changes Merchandise Mix

(Continued from page 3)

with the brand and still found the price prohibitive.

Additionally, Murry said the store discovered that juniors' apparel did not sell well, so Gateway has switched to more misses merchandise. Likewise, men's apparel was not selling, because many of the younger men in the area are unemployed while the older men just don't buy many clothes for themselves, Murry said. So the store is starting to stock some work apparel in hopes that this will sell better.

One category that has fared well has been apparel basics—such as socks, underwear and hosiery—but even with this category, he said the store has had to switch to the proper sizes and colors for the area's ethnic population.

Gateway also chose not to open a planned pharmacy and optical center, opting to use the space to sell ready-to-eat foods and fresh tortillas.

Keeping in mind the $16,000 average annual income base of the neighborhood has become a crucial factor for Gateway.

Not only are product requirements unique, but so are the shopping habits. Murry said he has found perishables are bought on almost a daily basis—since many people in the neighborhood live from hand-to-mouth. Consumer staples are typically bought on the first and fifteenth of each month, with greater business conducted on the later date.

The unique character of the neighborhood has also forced Gateway to deal with advertising and store recognition problems that many other discounters don't face.

For example, said Murry, few area residents read the newspaper everyday, so Gateway has had to turn to alternative forms of marketing.

Since Gateway is non-profit, the store has been able to take advantage of public service announcements and has received much coverage in the local media. Also, the company utilizes door-to-door fliers to advertise its existence.

To better understand the community, Murry has set up weekly Friday afternoon lunches with groups of community members, while also holding monthly meetings with area leaders. "We're trying to mold Gateway and turn it into what the community wants," explained Murry.

This responsiveness to the community is a driving force behind Gateway, which was financed by Sol Price and his son, Robert, along with a grant from the city of San Diego. The store is associated with the San Diego School of Retailing, which opened its doors just before Gateway debuted last fall. Each year, 30 area students work in the store and gain varying levels of experience in retailing.

The two entities, housed in the same building, have provided the depressed area with a community center. The complex already has served as a site for community art fairs and other events.

Better Quality Drives BTS Sales

(Continued from page 3)

lisher, *Drug Store News*, the panel included Ted Wyman, dmm, Hills Department Stores; Dave Hawmaker, stationery buyer, McCrory's; Tony Fanticola, vp, general merchandise, Vons; Frank Shanower, vp, merchandise, Drug Emporium; and Cynthia Stahley, stationery buyer, Genovese Drugs.

Panel members reported that BTS/stationery products, including home office, now perform well year round, a change from a few years ago when the core of the business was around September. Much of the change is associated with fashion-oriented merchandise and new products.

"Color plays a big part [in the growth of the business]. But as much as color has created a stir, new products are stimulating business, too," said Wyman of Hills.

New products, noted Hawmaker, are the "lifeblood" of the industry. "Let's get some more new products."

A nearly $6 billion industry for discount and drug store retailers, back-to-school/stationery is growing by about 15 percent to 20 percent per year, consistently outperforming many other categories in both kinds of retail operations, Forbes noted.

In addition to the impact that color and design are having on the category, much of the sales growth that retailers are charting is attributed to the home office area.

This segment, like traditional back-to-school merchandise, is driven by women, many of whom are responsible for organizing important papers, bills and receipts at home and who want quality, color-coordinated office products and accessories to outfit her home office.

What's important about this customer is that she is just as open to peer pressure as her children, said Wyman of Hills.

"You've got to look sharp for the peer group you're in," he commented.

Color is important for a number of reasons, said Stahley of Genovese Drugs. "It drives promotional business and makes an old item look different," she said.

Despite the heavy influence of color and design, panel members reported that their core business remains basic stationery items like paper, pencils and pens.

At McCrory's, where home office/stationery occupies 9 percent of a store's total square footage and contributes 9.5 percent of total sales volume, the best performing products remain seasonal items, basic stationery items like multipack pens, blister-carded thumb tacks and paper clips.

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Macy Snatches Federated From Campeau Clutches

By Mary Ellen Kelly

WORTHINGTON, Ohio — Gold Circle employees at headquarters here are resigned to the fact that the 21-year-old discounter will soon have new ownership and are focusing on near-term goals like spring business rather than long-range planning.

R.H. Macy's surprise bid early this month to merge with Gold Circle parent Federated Department Stores temporarily stymied the unfriendly takeover efforts of Toronto-based Campeau Corp., which launched its attack on the Cincinnati-based retailer in early January.

Macy chairman Edward Finkelstein, who offered $74.50 per share for 80 percent of Federated stock, is interested solely in the Federated's department store divi-

(Continued on page 81)

Rejects Mystery Buyout Offer

All American SportsClub Files for Chap. 11 Protection

LOS ANGELES — Spurning a buyout offer as too low, All American SportsClub chairman Robert McNulty has filed for Chapter 11 bankruptcy protection.

Builders Square chairman Frank Denny confirmed that his company, a K mart subsidiary, had taken a "quick look" at buying SportsClub but made no offer.

Builders Square is gearing up to launch its own chain of sporting goods membership warehouses, to be called Sports Club of America (see *DSN*, Feb. 1, page 1).

If McNulty's All American SportsClub is taken over, "neither K mart nor Builders Square will be involved," Denny said.

(Continued on page 81)

Wal-Mart's SuperCenter Key To Growth in Smaller Markets

By Arthur Markowitz

WASHINGTON, Mo. — Wal-Mart unveiled a 126,000-square-foot Wal-Mart SuperCenter here, its latest experimental general merchandise and supermarket hybrid that is expected to gross over $25 million in sales.

The SuperCenter, which replaced a smaller traditional Wal-Mart, combines a standard discount store mix with an augmented warehouse supermarket (or boxed food store) behind a 24-lane central checkout.

Wal-Mart executives said the unit in this St. Louis suburb and two others due to open this fall in Farmington, Mo., and Wagoner, Okla., are retailing tests—just like the discounter's Hypermart USA operation—designed to probe new marketing directions for the nation's third largest merchant.

Wal-Mart will use the three SuperCenters to "establish sales and operational parameters" before deciding on opening more such stores, president and chief executive officer David D. Glass said.

The discount store accounts for about 60 percent of the footage and the supermarket the remainder. Sales are expected to reflect that mix, with general merchandise producing about 60 percent of the volume.

Wal-Mart's key innovation in launching the SuperCenter was implementing the low margin merchandising and operational synergism between a discount store and an expanded warehouse supermarket. In doing so, it incorporated low-cost operational techniques like warehouse fixtures and case displays found in its Sam's Wholesale Club membership warehouse business and Hypermart USA stores.

Gross margins of the SuperCenter's general merchandise will be the same as that for Wal-Mart stores, while the food gross margins will

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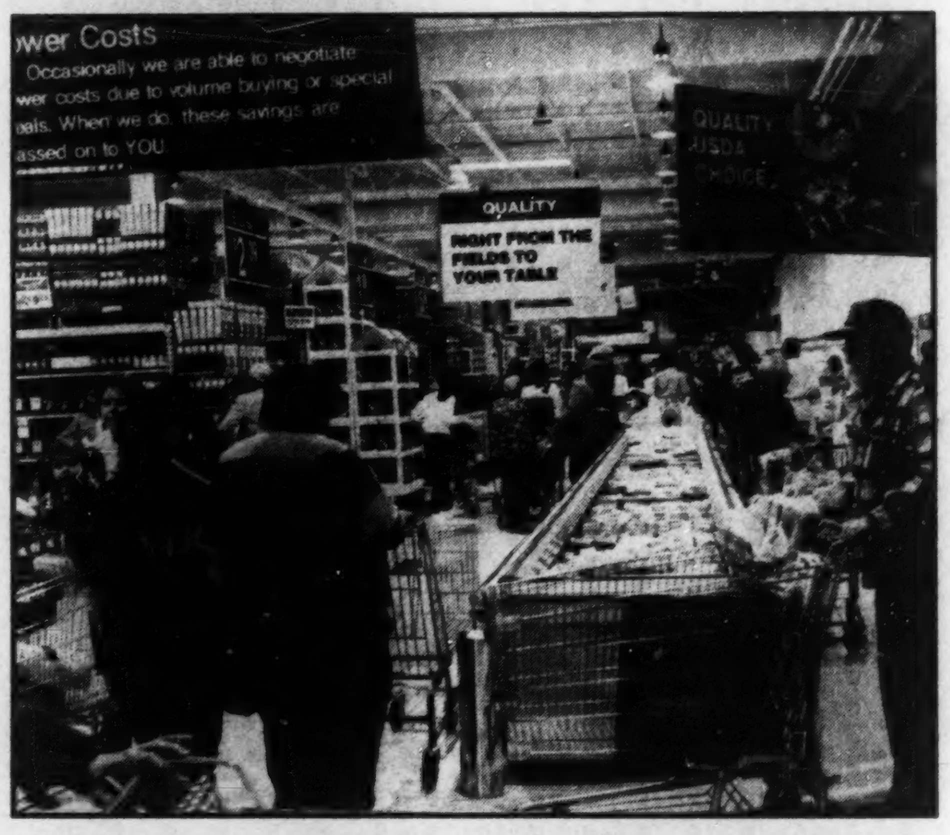
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eals. When we do, these savings are
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RIGHT FROM THE FIELDS TO YOUR TABLE
QUALITY USDA CHOICE

Wal-Mart's new SuperCenter combines a standard discount store with a warehouse supermarket. (DSN photo)

Enters Membership Club Retailing

K mart Closes Makro Deal

TROY, Mich. — K mart announced March 5 that it purchased a 51 percent interest in Makro, the four-store membership warehouse club, for an undisclosed price.

The nation's No. 1 discounter plans to rapidly expand the European-style warehouse club to about 20 units by 1990, including several new markets in the Northeast and upper Midwest, said Joseph Antonini, K mart chairman, president and chief executive.

Antonini, who acknowledged that K mart "has been talking about getting into a warehouse club venture for the last two years," told reporters at a press conference here at headquarters that the Makro deal will have no affect on K mart's previously announced plans to develop a hypermarket concept.

The announcement was hardly unexpected. *DSN* reported in its Feb. 15 issue that K mart was involved in negotiations to acquire an interest in Makro.

K mart and Makro, which was previously the U.S. subsidiary of SHV Holdings, N.V., will operate as a joint venture headed by Joseph Nusim, president of Makro, and John Shaw, executive vice president, administration for K mart. SHV, which operates directly or in partnership 78 wholesale club type stores in 10 countries in Europe, the United States and South America, will retain a 49 percent interest in Makro.

The acquisition of Makro will enable K mart to hit the ground running in the competitive warehouse club industry. The chain's expertise in food retailing particularly attracted the discounter's attention.

Nusim said food accounts for 10,000 of Makro's 25,000 sku's and half the average unit's $75 million in sales. Other features are: size, 150,000 square feet to 200,000 square feet compared to the industry average of 100,000 square feet; credit card sales, totaling 20 percent of volume; no membership fee; and no group members.

Makro, which opened in Washington, D.C., in 1981, also has stores in Philadelphia, Atlanta and Cincinnati and will open two units in Cleveland and one in Baltimore this year. Next year, the chain will add units in Hartford, Conn., and Cherry Hill, N.J.

Bobbie Brooks Apparel Revived by Wal-Mart

By Kenneth M. Chanko

BENTONVILLE, Ark. — Wal-Mart has added an exclusive fashion apparel brand name, Bobbie Brooks, to its women's wear mix, a key merchandising move in the giant discounter's efforts to upgrade its apparel segment.

The acquisition and merchandising of the Bobbie Brooks brand at the nation's No. 2 discounter is a significant upscaling step. A Wal-Mart source, who did not want to be identified, told *DSN* that the line of sportswear separates, which are now in all the chain's units, carries price points "at the upper end" of Wal-Mart's apparel price structure.

Up until recently, Wal-Mart has taken a basics approach to its apparel departments, with a more price-oriented strategy, featuring less fashion merchandise compared to either K mart or Target, the country's Nos. 1 and 3 discounters, respectively.

On the acquisition of the Brooks name, the Wal-Mart source said, "It's our philosophy that branded products have a connotation of quality and carry with them credibility in the eyes of the customer. We've been adding a lot of brands—and we'll be adding more." The source would not elaborate on the statement. He called the Brooks deal "pretty exciting."

Analysts and other industry observers said that acquiring an exclusive, recognizable brand name was a necessary step for Wal-Mart if it doesn't want to see the apparel merchandise gap widen between K mart and itself.

However, the Wal-Mart

(Continued on page 81)

Fashion in Plus-Sizes | *ALCO Back-Feeds Ra* | *Chains Look to IY Sales* | *Discounters Dabble In Home Security*

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MARKETWATCH

ShopKo Snares $152M from Parent

MINNEAPOLIS — ShopKo will receive a larger share of its parent's capital expenditures this year. The Green Bay, Wis., discounter will snare $152.2 million of the record $377.5 million capital budget unveiled this month by its parent Super Valu Stores. That figure is about 66 percent more than the $91.7 million spent on its discount division last year and represents a leap from 24 percent of the total capital budget last year to 40.3 percent of this year's budget. Total planned expenditures by Super Valu for the fiscal year which began Feb. 28 represent only a slight rise from the previous year's budget of $376 million. Super Valu, which is a partner in Biggs, the Cincinnati hypermarket, also said that $170.1 million or 45.1 percent of the budget will be allocated to its wholesale food operations, and $45.3 million or 12 percent would go to development and remodeling of company-owned retail food stores.

Glosser Bros. Opens 2nd Gee Bee in Va.

JOHNSTOWN, Pa. — Glosser Brothers, operator of Gee Bee discount department stores and Dollar Bargain Outlets, opened a 65,000-square-foot Gee Bee unit in Harrisonburg, Va., on March 1, the second store in Virginia and the 22nd for the chain. The other Virginia Gee Bee store opened last September in Manassas. Glosser Brothers also announced that this spring it will open a second store in York, Pa., the second in that market. By year-end, two additional Gee Bee stores are possible, said Joe Kelly, vice president, ad and sales promotion director.

Sears Reorganizes for More Competition

CHICAGO — Sears General Merchandise Group announced March 2 that it will restructure its headquarters merchandising organization to make it more competitive. The reorganization will take three years, streamline the operation to fewer management levels, and make the operation more independent and accountable by business segment. The exact number of people affected by the reorganization is unknown, Sears said.

Wal-Mart Denies Buying Zayre Stock

NEW YORK — Despite market rumors, Wal-Mart and the Dart Group have denied buying Zayre Corp. stock recently. It was reported that a source close to Edward J. DeBartolo, the San Francisco real estate developer, said the two companies, along with Bass Brothers and Leslie Wexner of The Limited, were buying up Zayre stock. DeBartolo continues to buy Zayre stock, but has no immediate plans to increase his stake beyond 5 percent, according to the source. DeBartolo and Wexner haven't discussed a joint effort to acquire Zayre, as has been rumored, the source added. Citing losses in its discount store division, fourth quarter profits at Zayre fell to $1.8 million, or 3 cents a share, from $43.8 million, or 73 cents a share, a year earlier. For the fiscal year, ended Jan. 30, Zayre profits rose 61 percent to $143.3 million from $89 million.

Pic 'N' Save Chairman Retires

LOS ANGELES — Arthur Frankel, chairman of Pic 'N' Save Corp. and 32-year company veteran, has retired from his post at the 125-unit Southwest closeout chain. He will provide consulting services to the company through 1993. Pic 'N' Save said it has agreed to buy back Frankel's 890,000 shares of stock at $17 per share, or $15.13 million. Over the years Frankel has held senior executive positions, and was elected chairman in 1986. He was president and chief executive officer from 1970 to 1986.

Hills Accepts DISC Award

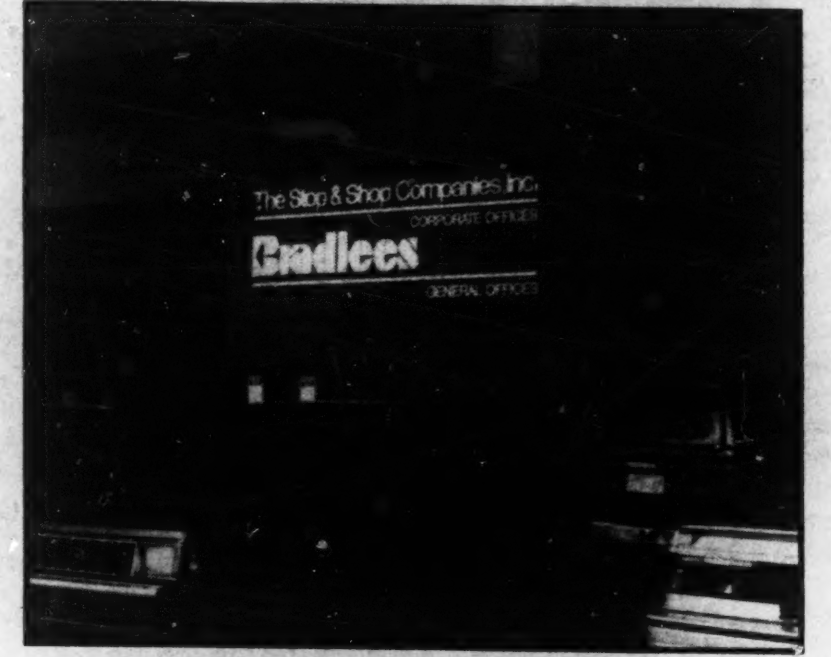
DSN editor Tony Lisanti presenting the 1987 DISC Award to Stephen A. Goldberger, chairman, president and chief executive officer of Hills Department Stores, for the retailer's support of community service activities. (DSN photo)

Stop & Shop Agrees to Cash Buyout To Fend Off Dart's Hostile Takeover

BOSTON — In a move to fend off a hostile raid from the Dart Group, Stop & Shop Companies—parent of the Bradlees discount chain—agreed to be bought out for $44 a share in cash.

But no word is forthcoming about the future of Bradlees.

The White Knight is a new investor holding company organized by Kohlberg Kravis Roberts & Co., a leading leveraged buyout concern in New York City.



Present management stays on at Stop & Shop's headquarters under a $1.23 billion LBO that fends off a raid by the Dart Group. (DSN photo)

KKR made no representations to Stop & Shop management about what will happen to Bradlees, a spokeswoman said. But the takeover definitely is friendly, she said. Present management remains in place, including Avram J. Goldberg, chairman and chief executive officer, and his wife, Carol, president, and senior management will be permitted to invest in the new holding company KKR is forming to acquire Stop & Shop.

Subject to stockholder approval, the buyout appears to mark the end of yet another Dart Group attempt to gain control of a major retailer. Previous attempts include passes at Safeway, Supermarkets General and, last year, Dayton Hudson.

In LBOs, acquirers often sell units of chains in order to pay down acquisition debt.

A spokesman for KKR declined comment about what will happen to Bradlees. "KKR is very close mouthed," he said.

Just before Dart put the supermarket and discount store chain in play Jan. 11, Stop & Shop closed at $20.75. Dart successively bid $30 a share, then $31 and finally $37.

The $44 offer from KKR thus represents an increase of 112 percent in less than two months.

Dart declined to increase its bid to match or beat KKR's $44. Its only response was to extend the deadline for accepting its $37 per share bid.

(Continued on page 82)

Heck's Chairman Isaacs Resigns

Maloney's Division Files for Chap. 11

NITRO, W.Va. — Heck's chairman and board member Russell L. Isaacs resigned this month, one day after Heck's Maloney's stores subsidiary filed for bankruptcy protection from creditors.

The troubled regional discount chain also announced that it received another 90-day extension for filing plans to emerge from its own Chapter 11 bankruptcy.

John Isaac, president and chief operating officer, has assumed the duties of chairman.

Heck's 90-day extension in which to develop a reorganization plan for emerging from Chapter 11 bankruptcy came over the vigorous objections of some creditors.

The court victory came just hours after Heck's announced that its losses had worsened to $61.3 million for the fiscal year ended Jan. 2, 1988, from $18.3 million the previous year.

In the other development, Heck's Maloney Enterprises subsidiary also filed for Chapter 11 protection from creditors. Heck's said the Maloney filing became necessary because Heck's was legally unable to fund Maloney's operations and its subsidiary was unable to get its own funding.

The extension gives Heck's management additional time in which to analyze its new business plan and develop alternatives, said Maarten D. Hemsley, Heck's new chief financial officer.

Heck's now has until June 1 to lay its reorganization plan on the table, said Hemsley, who was cfo at S.E. Nichols, New York, before joining Heck's. Creditors then will have 60 days in which to comment on the plan, he said.

Come June 1, "it will become very difficult for Heck's to get another extension,"

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Ames Reveals 10 Arrests, More Anti-Shrink Efforts

SECAUCUS, N.J. — Ames Department Stores revealed this month it fired and brought charges in Municipal Court last October against 10 employees of its Secaucus distribution center on minor theft charges.

But its investigation into its $18 million to $20 million shortage that appeared after its December 1986 inventory uncovered no major theft ring operating out of its distribution center here, said Steve Yaeger, vice president of loss prevention.

In another effort to get a handle on shrinkage, Ames is going to start giving "honesty tests" to potential employees of 18 or more stores now under construction.

"We found a lot of people stealing a lot of things and charged those that we could," Yaeger said, but the chain found no big theft conspiracy at its Secaucus distribution center.

Of the 10 charged, two have pleaded guilty, while eight cases remain pending, said Steve Milner, director, distribution loss prevention.

Those charged were accused of stealing easily pilferable items, such as cigarette lighters, Milner said. In each case, the dollar value stolen never exceeded $200, he said.

"It wasn't a mass conspiracy," he said.

Ames has implemented many policies and procedures at its DC here, Milner said, such as making employees wear identification badges and have proper authorization for entry to various areas. In addition, Ames has installed a camera system that covers every part of its distribution center, he said.

(Continued on page 82)

Brick Church Invades N.Y. Via Lease Agreement with TSS

Brick Church (inset), the 22-unit CE specialty chain, will operate 2,000-square-foot leased electronics departments in TSS-Seedman's 12 New York metropolitan area discount stores. (DSN photos)

By Josephine Fiamingo

NEW YORK — Brick Church, the 22-unit consumer electronics retailer, is attacking the metropolitan New York market via a lease agreement with TSS-Seedman's that should produce between $30 million and $35 million in sales in the first year.

The Orange, N.J.-based CE retailer will open 4,000-square-foot Brick Church departments in each of TSS's 12 New York metro area department stores in May.

The lease agreement became effective on March 1.

The agreement conforms with previously-stated plans of TSS-Seedman's new management team, headed by Julius Kasinitz, chairman, president and chief executive officer since November, to invigorate the stores and increase traffic by turning them into mini-malls.

Kasinitz told *DSN* that he plans to reduce the size of the 12 New York area TSS-Seedman's stores from between

(Continued on page 82)

One-Price Apparel Stores Carve Niche Below Off-Price Chains

By Kenneth M. Chanko
Nationwide DSN Report

As the upscaling of the off-price apparel segment continues, a new and growing business segment has emerged to fill the deep discount void—the "one-price" apparel chain.

Selling women's apparel and accessories for $6, $7 or $9.99, depending on the chain, these retailers are catering to a customer that 10 years ago might have shopped a T.J. Maxx or a ClothesTime.

But as the large off-price chains sought the better business at better margins, a niche was created for the one-price, or ceiling-price, apparel store.

There are currently at least eight, one-price apparel chains in operation throughout the country; all have been founded since 1980 and the majority have been started over just the past four years.

They all cater to middle- and lower-income women, with most of them carrying women's separates and accessories. Many of the chains offer recognizable brand names, while others carry second-tier brands.

There has also been substantial growth in the one-price variety and shoe store.

"It's a dynamic concept," said Fred Wintzer, vice president and retail analyst at Baltimore-based Alex Brown & Sons. "Everything in the store for $6, in the case of One Price Clothing Stores. These guys are the true closeout retailers. It's a pretty good niche to be in these days. They're way below Marshalls, Ross and Maxx. They remain simple and get great turns."

(Continued on page 32)

Leading One-Price/Ceiling-Price Apparel Stores

Chain	Number of Units, Location	Average Store Size (Sq. Ft.)	Number of Units by Year-End
Allison's Place (Los Angeles, Calif.)	222 owned, 85 franchised; nationwide, Guam, Virgin Islands	2,000	262 owned
Dre$$ to the Nine$ (North Lauderdale, Fla.)	1 in North Lauderdale	4,500	NA
Fashions $9.99 (Santa Rosa, Calif.)	13 in Calif.	2,400	18
$5 Clothing Store (Los Angeles, Calif.)	45 in Calif., Nev.	3,000	65
One Price Clothing Store (Duncan, S.C.)	101 in 6 Southeastern states	3,000	150
Susie's Deals (City of Industry, Calif.)	48 in Calif., Nev.	3,300	70
$13.99 Ltd. (Warwick, R.I.)	1 in Warwick, R.I.	1,000	1
Your $10 Store (Redmond, Ore.)	30 in Oregon	600	50

NA—not available

Source: DSN research

Reclaiming Domestics Profits

Gold Circle Upscales Its Home View

By Peter Hisey

WORTHINGTON, Ohio — Gold Circle, the 76-store chain based here, has expanded its upscale soft goods strategy with a new domestics program called Home Views.

The program, unveiled chainwide on March 6, consists of a fully coordinated, everyday low price presentation of towels, sheets, comforter sets, shower curtains, rugs and accessories made up of market-exclusive products from major home fashions manufacturers.

"We hope this enhances the profitability of our domestics department," said Steve Fishman, Gold Circle's senior vice president, general merchandise manager, home store.

Fishman said that the program is an addition "to our successful Color Concepts program" and will help differentiate the retailer from its competitors and give fashion and trend conscious customers an option to department store prices. "Why should people be left out of a trend just because of their economic situation?" asked Fishman prior to the program's debut.

"Department stores have abandoned the middle ground from a pricing standpoint in domestics, and we can pick up those customers."

Home Views' main purpose is to put some profit back into the domestics category.

(Continued on page 38)

Richway store in Atlanta prepared shoppers for the unveiling of new, market-exclusive Home Views merchandise. (DSN photo)

Ward Realigns Staff, Seeking Grocery Tie

By Laura Liebeck

CHICAGO — Montgomery Ward last month realigned its field and merchandising operations, reduced the number of territory headquarters from six to four and cut the corporate staff by 3 percent.

The 316-unit general merchandise/specialty retailer also is looking to join forces with a supermarket operator.

But a decision on whether Mobil Oil, Ward's parent, still wants to sell the operation, remains unanswered.

A company spokesman told *DSN* that no decision has been made about the sale of Montgomery Ward by Mobil Oil. But Mobil chairman Allen E. Murray has made statements recently that indicate he may not sell the Chicago-based retailing chain that posted a net earnings gain last year of 23 percent, to $130 million.

Ward recorded $4.6 billion in sales in 1987, up 6 percent from the previous year.

In the Feb. 22 issue of the *Chicago Tribune*, Murray said, "We're very happy with Ward right now, and we would be happy with it in the future."

Currently Bernard Brennan, Montgomery Ward's president and chief executive officer, is looking for a supermarket company to operate food sections in Ward stores. The arrangement would be similar to the one it struck with Toys "R" Us about 18 months ago.

(Continued on page 82)

New, Growing One-Price Apparel Chains Fill Discount Void

(Continued from page 3)

This business depends on strong vendor relationships and the ability to get quality merchandise at $3 to $3.50 tops. Most retailers in this business do not buy irregulars or seconds. They pick up cancellations, closeouts or overruns in season or buy up end-of-season merchandise from manufacturers. As Morrie Dym, owner and president of Los Angeles-based $5 Clothing Store, which has been around since 1981, said, "There's always been goods around to buy" at low prices.

Dym, who recently had to up his top price to $6 (though he doesn't plan to change the store name), said that 10 years ago chains like Ross and ClothesTime knocked the single-unit mom-and-pop discount apparel stores out of business. He added that as the chains grew, more pressure was put on margins, and merchandise began selling at price points closer to specialty stores than deep discounters.

City of Industry, Calif.-based Susie's Deals sells juniors-oriented sportswear at one price—$9.99. The chain has seen sales jump 40 percent annually for the past two years. (DSN photo)

Dym's $5 Clothing Store currently operates 45 units and targets the middle-income, 14-to-35-year-old female customer. Unlike other retailers in this business, Dym said he carries recognizable brand names on a regular basis. He said he buys from over 1,000 vendors a year.

While the majority of these chains, including $5 Clothing Store, are still private, the two largest, Allison's Place, in Los Angeles, and Duncan, S.C.-based One Price Clothing Stores, have gone public.

Allison's Place, the granddaddy of the one-pricers, having been founded in 1980, started showing sluggish growth in late 1986, the year the retailer went public. So chairman and chief executive Marvin Schenker brought former ClothesTime executive Joel Doti on board last year as president to sharpen the chain's operations.

Doti said that last year's third quarter remained "tough," but fourth quarter "sales were positive."

Doti said that the one-price apparel business is very viable today. "The customer with fewer consumer dollars is a more conservative consumer who is looking for value. Many discounters have abandoned this customer."

Allison's Place, which also has franchise stores, isn't a true one-pricer in that while 80 percent of inventory is at the $7 price or less, it does carry merchandise at $9, $10 and $12 as well.

Doti said the store has a markdown program that begins after merchandise has been in-store for 12 to 15 weeks.

Echoing other executives in this business, Doti said the key is having a strong rapport with manufacturers as well as having a sophisticated buying and distribution system that enables the company to get the right goods to the right stores within weeks of a buyer's purchase.

One of the fastest growing and best performing chains in this market is One Price Clothing Stores.

Raymond Waters, vice president, treasurer and one of the founders, said, "We often have the same or similar item for $6 that T.J. Maxx is selling for $15 or $18 or $22."

One Price, which went public last year, posted impressive 1987 numbers: a 36 percent rise in earnings, with sales up 65 percent.

One, Two, Three Items for $6

One Price sells everything in the store for $6. "We don't have to do many markdowns—inventory turnover is 10 or more times a year—but when we do we sell two items for $6," said Waters. "If it still doesn't move, we go three items for $6. If it still doesn't move, we give it to charity."

Waters said the company put in a new point-of-sale processing system and went onstream with it last month. "We try to stay ahead of the business. The worst thing you can have is uncontrolled growth," said Waters.

One Price opened its 101st store March 10, according to Waters, and he said that plans call for 150 units by year-end. The retailer will also be entering its sixth state, Kentucky, before year-end, he said.

Waters also said that One Price recently added 144,000 square feet to its 43,000 square feet of office and distribution space in Duncan, S.C.

One of the newest operations is the one-unit $13.99 Ltd., in Warwick, R.I.

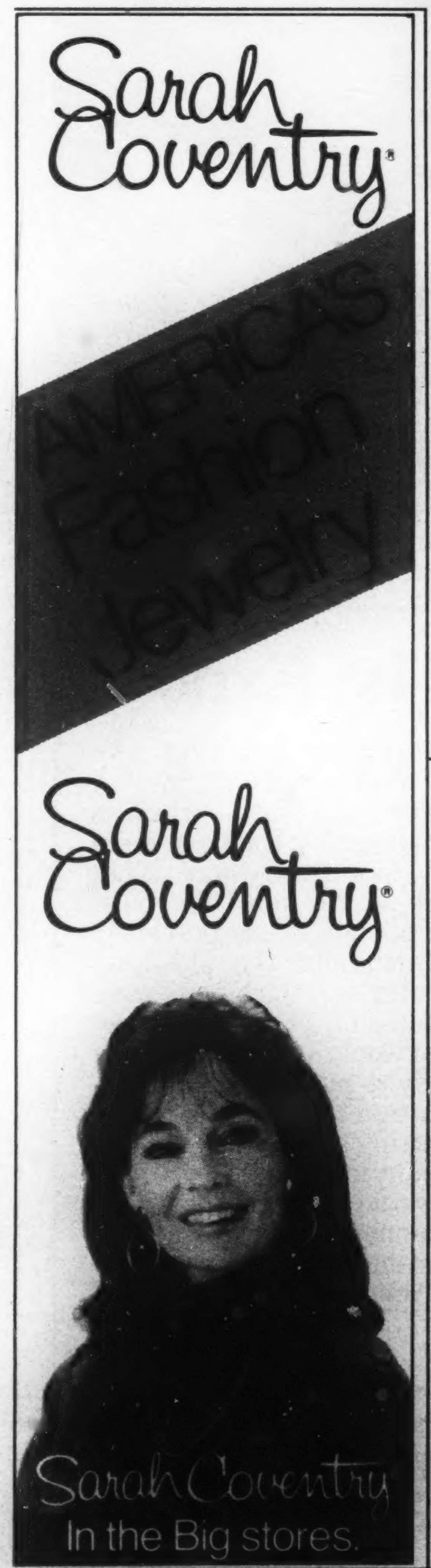
Owner Lew Fazzi opened the 1,000-square-foot store last year and already, he said, he's seen two $8 stores open over the past several months.

Fazzi offers everything in the store for $13.99 or less, and he said he carries such labels as Palmettos, Gloria Vanderbilt, Lee and Forenza.

He said he has no current plans to expand in 1988.

Growth has also been substantial at Susie's Deals, based in City of Industry, Calif., with sales having jumped 40 percent annually for the past two years.

Carrying such brands as Gitano, Tomboy and Sergio Valente, Susie's Deals sells everything for $9.99, targeted to the fashion-conscious junior customer.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Discounters Seek Products to Build DIY Sales

By Laura Liebeck

CHICAGO — When the doors to McCormick Place swing open on the 13th annual National Home Center Show here this week, a number of discounters will be looking for items to enhance their burgeoning home security and safety departments.

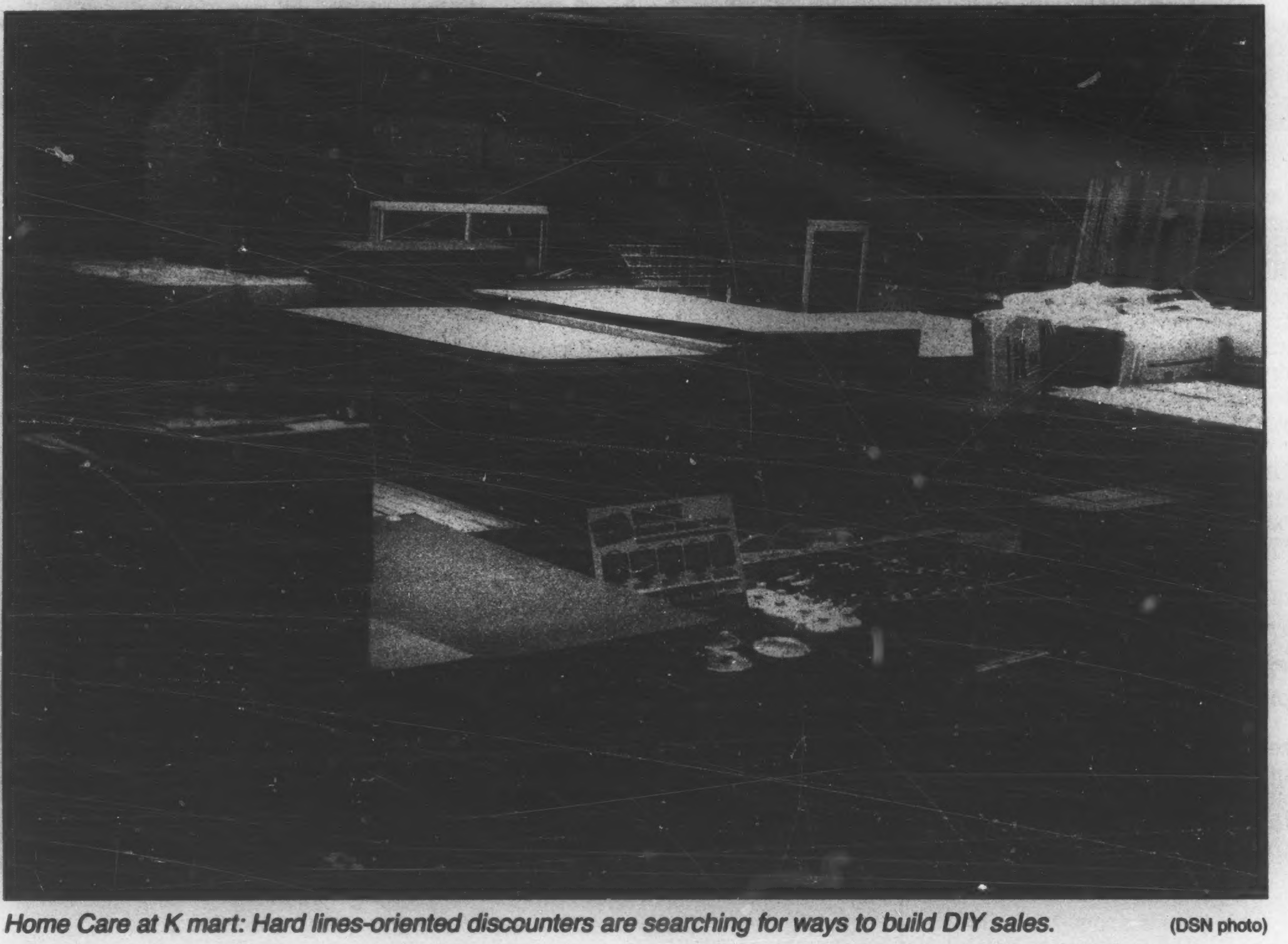
They will also be searching for a wide range of basic home improvement products and the latest in product innovation, design and color. But the declining value of the dollar against some other currencies, particularly the yen, and its impact on foreign trade and import sources will be of interest, too.

Earl Vondran, a senior buyer at Worthington, Ohio-based Gold Circle, said he is expecting price hikes to exceed levels previously announced by foreign manufacturers and that a variety of Pacific Basin countries will be exporting products previously reserved for Taiwan.

"It's going to be interesting to see exactly what the impact of the weaker dollar will be," he commented.

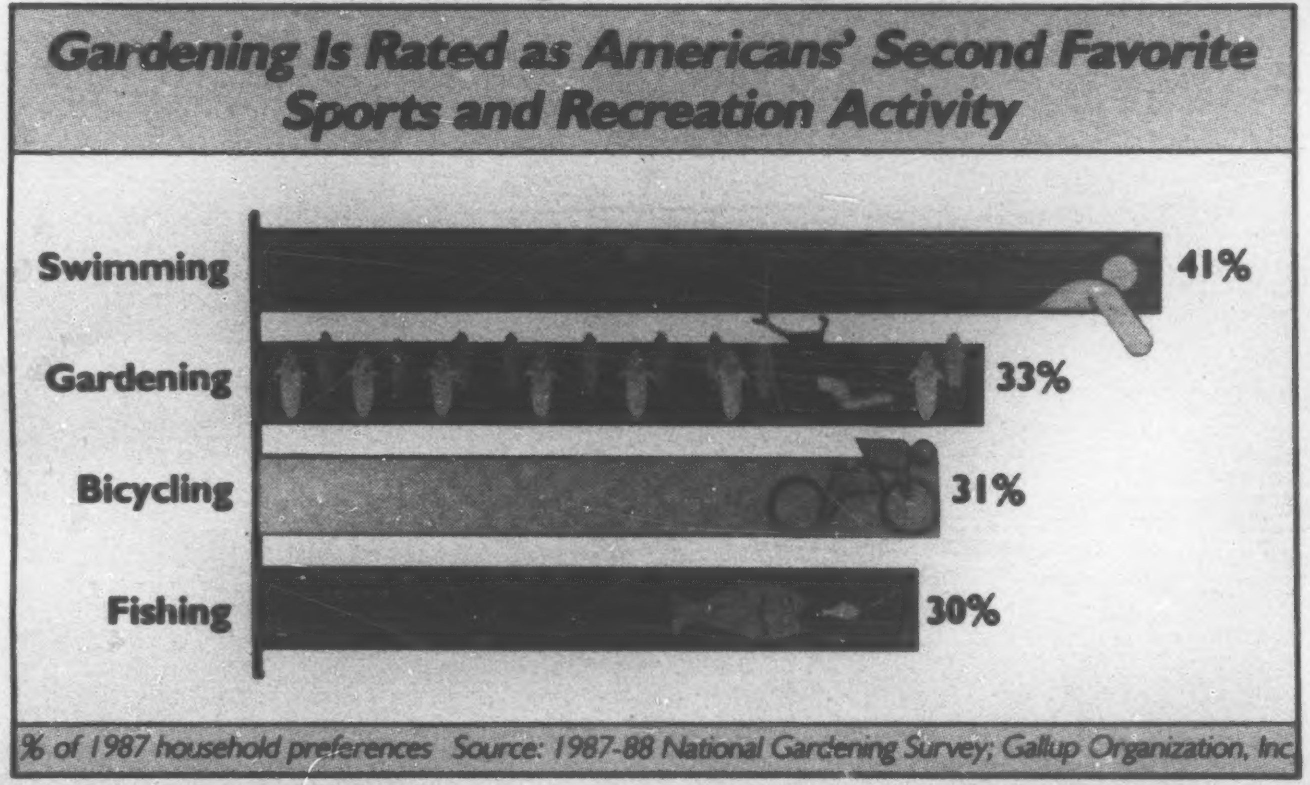
In addition to that, Vondran said he will continue to look for new home security devices, like rechargeable tools and flashlights, which have been "good areas" for the discounter. And, he anticipates seeing greater use of the "housewares colors" in the hard lines areas. "It's an area of

(Continued on page 48)



Home Care at K mart: Hard lines-oriented discounters are searching for ways to build DIY sales. (DSN photo)

Gardening's Popularity Cultivates Record L&G Sales



NEW YORK — Americans' love for greener pastures helped drive lawn and garden sales to a record $17.49 billion in 1987, a 23 percent increase over 1986 sales figures.

Sales at retailers' lawn and garden departments and other outlets were up in 11 of 15 categories, according to the 1987-1988 National Gardening Survey conducted by the National Gardening Association.

Overall, the survey found that gardening is one of the most popular leisure activities Americans enjoy.

In fact, it is the second most popular leisure activity in this country, behind swimming, with 33 percent of respondents saying they garden. Bicycling, fishing and camping followed as other top hobbies, with responses of 31 percent, 30 percent and 21 percent, respectively.

According to the survey, 78 percent of Americans enjoy gardening projects, or 70 million households.

The most popular of all gardening activities was lawn care, with 59 percent of the respondents, or 53 million households, saying they participate in this activity.

Lawn care also posted the largest sales increase in the gardening category, up $1.13 billion.

Large sales increases were also recorded in:

- Landscaping, up $745 million;
- Tree care, up $408 million;
- Ornamental gardening, up $305 million.

(Continued on page 49)

MARKETWATCH

NEWTON, Mass. — **Staples**, the home office specialty retailer based here, opened two new stores last month, the company's 10th and 11th units, in Weymouth, Mass., and New York City. By the end of this year, the retailer expects to have at least 24 stores open along the Eastern Seaboard, from Virginia to Massachusetts. Next year, Staples plans to open stores in the Midwest. By the end of this fiscal year, ending April 30, Staples expects to post $40 million in sales. In 1989, sales receipts are projected to top $120 million. Steering the company to greater sales will be Staples' new president and chief operating officer, Henry Nusella, who just joined the retailer. Nusella replaces Staples co-founder and chief executive officer, Thomas Stemberg, who was recently elected by the company's board of directors to the post of chairman. And Staples co-founder, Leo Kahn, was named chairman of the executive committee.

* * *

WASHINGTON D.C. — **National Electronics Warranty Corp.**, a marketer of extended service contracts, is now offering retailers a one-year extended service contract program on lawn mowers, gas and electric grills, garden tools and power tools. The N.E.W. service contract extends the manufacturer's warranty coverage for one additional year on both parts and labor. Cost of the extension is based on the price of the item. Fred Schaufeld, president of N.E.W., said the extended warranties are being offered on lawn mowers, grills, and garden and power tools because of specific request for the program. "There seems to be an unusually high consumer demand for extended service contracts in the lawn equipment and power tool categories," said Schaufeld. The N.E.W. program also features a toll-free number for assisting customers; a nationwide service network; and underwriting through an insurance carrier.

* * *

NEW YORK — Booth Recognition awards went to 34 exhibitors at the recently concluded seventh annual **National Back-To-School Merchandise Show** held Feb. 12 to 14 at the Jacob Javits Convention Center here. Of some 900 exhibitors at the show, awards were presented to: Acco International; ADI; Esselte Pendaflex; Faber-Castell; K&M Co.; Mead Products; Stuart Hall; Parker Pen USA; Scripto Tokai; Bic; Binney & Smith; 3-M/Home Products Div.; Eldon Office Products; Fellowes; Pentel of America; Sheaffer Eaton; American Greetings; Avery; Empire Pencil; Majestic Industries; Norcom; Rose Art Industries; Rubbermaid; W.T. Rogers Co.; Dek; Dixon Ticonderoga; Gibson Greetings; Hambly Studios; Hazel Cardinal; Lisa Frank; Master Lock; Outer Circle Products; Pentech International; and Wilson Jones.

Gardening is the second most popular U.S. recreational activity, behind swimming. (DSN photo)

Gardening's Popularity Fertilizes L&G Sales

(Continued from page 47)

Other popular gardening activities included: flower gardening, with 43 percent of those polled enjoying this activity; indoor houseplants, 41 percent; and vegetable gardening and shrub care, each with 33 percent.

The gardening project experiencing the greatest increase in consumer participation was flower bulbs, up to 27 percent, or 24 million households in 1987.

In total, consumers spent an average of $251 last year on lawn and garden products, up from $196 in 1986.

Perhaps some of the increase can be attributed, in part, to the large number of households that own and purchase outdoor power equipment.

About two-thirds of all American households own at least one piece of outdoor power equipment—lawn mowers, snow blowers, string trimmers, garden tillers and garden tractors—the survey learned.

The most popular piece of outdoor power equipment is the gas-powered, walk-behind rotary lawn mower. Forty-nine percent of the survey respondents said they own such a lawn mower, followed by 28 percent who said they have a chain saw, and 23 percent who said they own a power-string trimmer.

This information helped drive the Outdoor Power Equipment Institute to create a national safety program to remind consumers to be careful when operating such power equipment (see story, page 67). And, the association has declared April National Outdoor Power Equipment Safety Month.

The just released National Gardening Survey included questions concerning outdoor power equipment for the first time in its 15-year history. More than 1,500 households nationwide were polled for these results for OPEI.

Survey Questions

Questions on outdoor power equipment dealt with the types of equipment families buy; how they make their selections; and what operating procedures they follow when using the equipment.

Unlike gardening in general, which appeals to a broad cross section of the American population, survey results revealed that ownership of outdoor power equipment appeals to a slightly different profile.

People who own outdoor power equipment tend to be married; aged 30 and over; college educated; have professional or business occupations with household incomes exceeding $30,000; and maintain suburban and rural households.

Ownership of outdoor power equipment is highest in the Midwest, where three out of four respondents said they own at least one piece of equipment, compared to just over two-thirds of the population in the other three regions: 64 percent of households in the East; 65 percent in the South; and 66 percent in the West.

When choosing a piece of outdoor power equipment, respondents listed good warranty, price/affordability, safety features, easy maintenance and high quality construction as chief considerations.

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COMMITMENT #4
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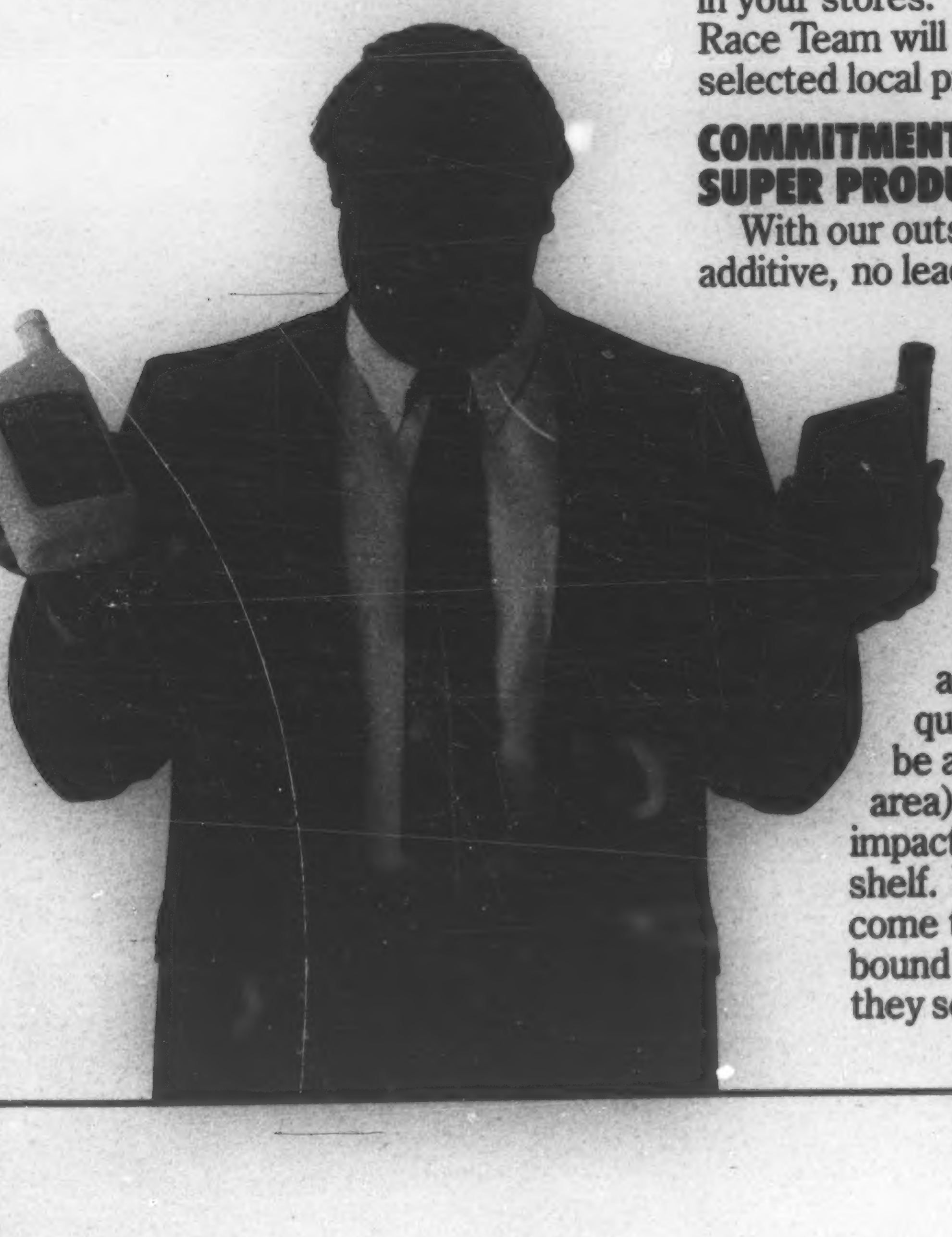

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It's Back to Basics in Toys—No Mega-Hits Expected This Year

By Richard C. Halverson

NEW YORK — Worlds of Wonder introduced at the International Toy Fair a remarkable version of Teddy Ruxpin, its high-tech mega-hit of yesteryears: It holds no micro-chips or batteries, it is made to sell for $9.95, and it doesn't rock, talk or walk in the woods.

The non-tech, plush bear illustrates as well as anything the key note of the toy industry at this year's fair: back to basics. Instead of hoping for mega-hits to carry the day, toy makers are promoting toys based on tradition, such as the new Jump Stick, a jump rope with a handle bar, to sell at moderate prices.

It appears to be no accident that the Milton Bradley division of Hasbro included two old favorites in its Toy Fair display: Tinker Toys, celebrating its 75th birthday, and Lincoln Logs, 72 years old.

'Kid Power' Drives New Toys

Indeed, Mattel claims that "Kid Power" drives its 1988 line. Instead of using batteries, children's imagination and muscles power many of its new offerings.

The toy business will be difficult this year, said Gene O'Donnell, senior vice president and general merchandise manager for Hills, Canton, Mass. Unlike previous years, the toy business will be harder to generate in 1988, he said.

"I don't expect any mega-hits this year," O'Donnell said. "There are no Cabbage Patches out there."

"If done judiciously," however, "toys can do well this year," he said. Buyers will have "to allocate dollars to basics and work around it," O'Donnell said. Hills will take about a month to finalize its buying plans, he said.

O'Donnell said he saw less in the way of new offerings at the fair this year, although some categories, such as learning aids from Texas Instruments and Vid-Tech, for example, have possibilities.

The flavor of this year's toy fair was plain vanilla, said Charles D. Smith, one of six toy buyers for K mart. The toy industry is less flamboyant this year, said Smith, but will be healthier now that it's correcting its top-heaviness in high-ticket items.

Toy prices are trending downward, with toy makers producing toys with more perceived dollar and play values, he said.

Saturday morning TV promotions also are lessening, Smith said, shifting the burden to retailers to promote and market basic toys with the same type of instore display and advertising flair once seen for Teddy Ruxpin.

Radio-controlled cars are coming off a "sensational year," Smith said, and should do even better in 1988. But it is one of the few strong categories, he said.

Fair-going buyers showed a lot of interest in the Wheels of Fortune TV game and the Body Rap sound amplification music system, he said.

Toy Shipments in Dollars and Units
(In Millions)
Dollar volume was down last year even though unit sales increased.

	Wholesale Volume			Units Shipped		
Product Category	**1986**	**1987**	**Percent Change**	**1986**	**1987**	**Percent Change**
Plush (electronic & traditional)	$1,062	$1,174	10.5%	123	193	56.9%
Activity Toys (bldg. sets, educational, household, model kits, art, accessories)	850	1,092	28.5	321	511	59.2
Vehicles (remote-control, battery, mini vehicles, non-power over 6-in., train sets, accessories)	764	923	20.8	201	190	(5.5)
Dolls (baby, fashion dolls, accessories)	1,663	920	(44.7)	176	121	(31.3)
Games & Puzzles	760	861	13.3	175	197	12.6
Infant/Preschool	816	840	2.9	157	170	8.3
Figures (action figures, robots, accessories)	1,105	702	(36.5)	229	173	(24.5)
Ride-Ons (excluding bicycles)	288	570	97.9	15	26	73.3
Guns (weapons, accessories)	71	78	9.9	19	33	73.7
All Other Toys (sports, playground, children's furniture, water, audio/visual)	944	1,041	10.3	165	179	8.5
Total Toy Industry	**$8,323**	**$8,201**	**(1.5%)**	**$1,581**	**$1,793**	**13.4%**

Figures compiled from 69 suppliers representing over one-half of toy industry shipments. Figures include imports and are projected to reflect total industry levels.

Source: Toy Manufacturers of America, February 1988

Body Rap, about $75 from Hasbro and competing systems, Footnotes, about $40 from Remco, and Body Stixs, about $30 from Nasta, may produce a winner in the category of sound amplification music systems, Smith said.

All of this follows what Mattel calls a "rough year" for the toy industry, with many major producers posting losses. Retail sales were flat in 1987 at $12.5 billion, said Robert Cooper, chairman of the Toy Manufacturers of America, at an opening press conference. He predicted retailers can expect only a 5 percent sales gain in 1988.

Industry shipments in dollars declined 1.5 percent while unit shipments rose 13.4 percent, Cooper said, indicating a decline in unit prices. Consumers are seeking out "basic toys with good value, not just high-tech, novelty value," Cooper said. He added that parents want "safe, study toys that encourage imagination."

Ratings of toy makers' Saturday morning TV shows are declining, Cooper said. Yet, video games are quite hot again, he said, and TV interactive toys are doing well.

Cooper said TMA expected 17,000 visitors to its 85th fair held earlier this month in showrooms in and around the Toy Building in midtown New York City, as well as at the nearby Jacob K. Javits Convention Center. Toy manufacturers were displaying 5,000 new toys as well as 150,000 toys from previous years.

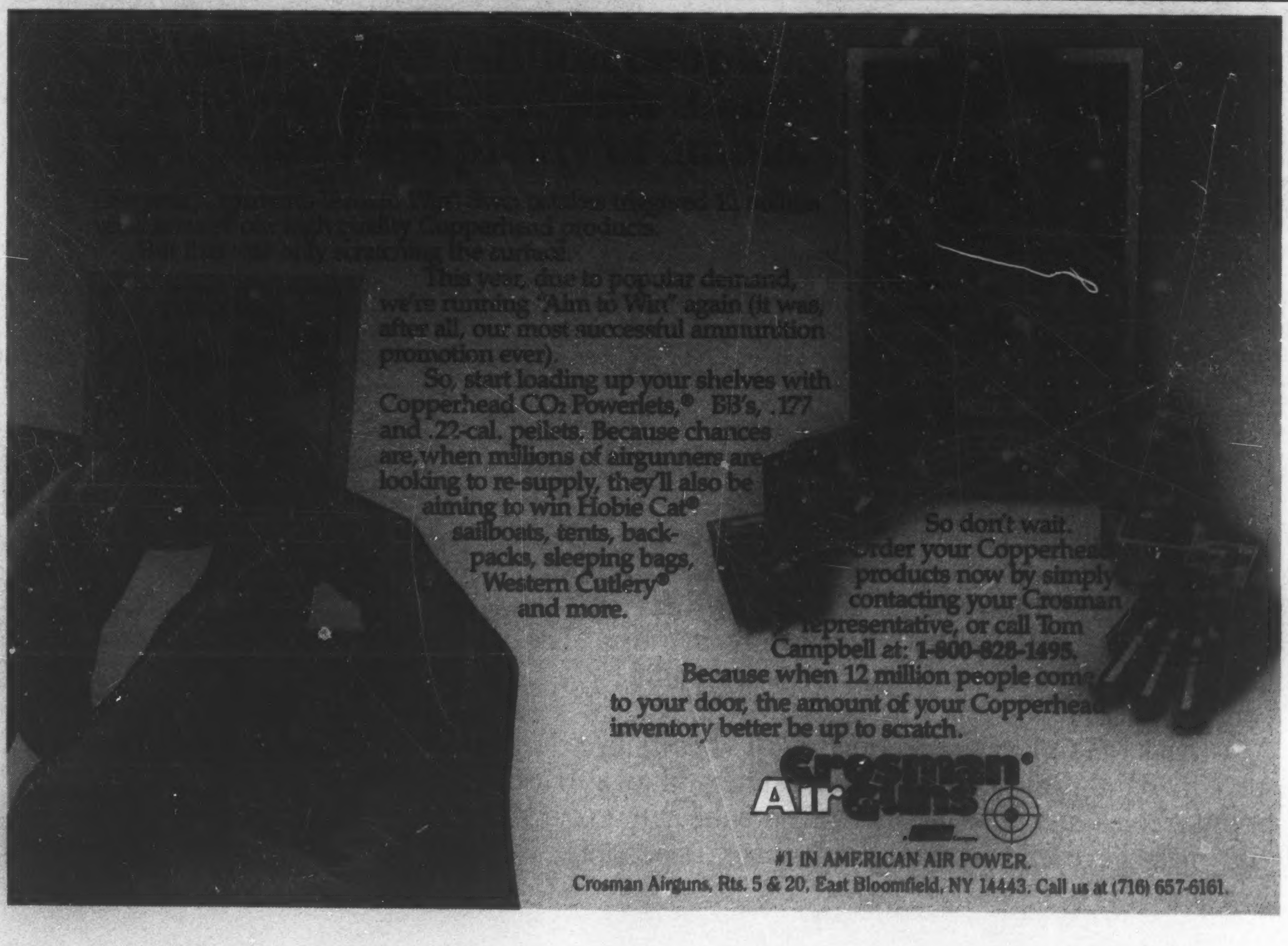
Worlds of Wonder grabbed the headlines by seeking refuge from creditors by declaring Chapter 11 bankruptcy just before Christmas. But 1987 results for Hasbro also are an indication of the troubled state of the toy industry. Its sales for fiscal 1987, ended Dec. 27, were essentially unchanged at $1.34 billion. Earnings plunged 51.4 percent, however, to $48.2 million from $99.2 million in 1986.

To reassure buyers of its financial ability to make and ship product, Worlds of Wonder brought to the fair representatives from its bankruptcy financial advisors, Bear, Stearns, said Paul Rago, vice president of marketing.

To be sure, Worlds of Wonder and other manufacturers are still toying with high-tech. The company introduced a new, steerable race car game made to retail for up to $149. And, its Julia talking doll, intended to retail for up to $100, is now in production.

In line with other makers of high-tech toys that are returning to the lineup, Worlds of Wonder cut the cost of its Teddy Ruxpin talking bear by $10, so it should retail as low as $39.95, Rago said.

To reduce its risks, Worlds of Wonder has broadened its product line, both by category price point and by season. Its summer line, such as Splatter Up, a water-based baseball hitting game, about $14, is ready to ship now, he said. Continuation and expansion of lines was another dominant theme at the fair. Coleco, for example, introduced a Mrs. Couch Potato and boy and girl Couch Potatoes to keep Mr. Couch Potato company.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TSS-Seedman's Leases Space to CE Retailer Brick Church

(Continued from page 3)

160,000 square feet and 220,000 square feet to 100,000 square feet, and lease out the balance to other operations such as supermarkets, beauty salons, dry cleaners, insurance agents and opticians.

Kasinitz, who previously held top posts at Two Guys, Caldor and Almy's, was chosen to shore up the Brooklyn, N.Y.-based discounter on Nov. 2, after Resource Holdings, a New York City merchant banking group completed its acquisition of the chain from founder George Seedman. TSS-Seedman's sales volume and earnings have been flat for the last few years. The chain recorded about $250 million in sales last year, according to a Dun & Bradstreet credit report dated Feb. 13, 1988.

"This deal came at the right time for us as we have just strengthened the chain internally and were looking for a growth opportunity," said Jay Lubetkin, general counsel for Brick Church.

The New York City and Long Island TSS-Seedman's stores represent a new market for Brick Church and its first major license operation. However, the approximately $100 million CE chain emphasized that it has tracked this market for a long time and is familiar with the strategies and formats of such area competitors as Newmark & Lewis, Crazy Eddie, The Wiz, PC Richard and Macy's.

Lubetkin said the chain is not ruling out opening freestanding stores in the new market; it just has its "hands full right now," said Lubetkin.

The leased departments will be identified as Brick Church departments by signage in the store and will be laid out like freestanding Brick Church stores. It will be managed and staffed by Brick Church personnel.

The chain's advertising scope will be expanded and its "Ernest" television ads and print advertising will include a tagline that tells customers to "visit Brick Church, and Brick Church at TSS-Seedman's."

After clearance sales this month to deplete existing inventory in the department stores, Brick Church plans to expand departments from between 1,600 square feet and 2,100 square feet to 4,000 square feet and will refixture them to a more upscale look.

Each department will carry many brand names that were lacking in the TSS-Seedman's departments, Lubetkin said. In TVs, Brick Church will carry 12 major brands while TSS only had three to four.

Brick Church will also add a wide selection of projection and large, direct-view TVs to the slim assortment of one or two before. It will also add a full line of component audio equipment and camcorders to TSS' limited selection.

Half of the departments (2,000 square feet) will house major appliances. Dishwashers, laundry appliances and cooking appliances will round out the new offering.

Each Brick Church department will be manned with four full-time sales personnel and two to three part-timers depending on sales per store.

Brick Church said sales from these departments could reach as high as $50 million per year in a short time. The chain estimated sales of the CE department under TSS-Seedman's management to be only around $12 million last year.

Ames Takes Measures To Prevent Shrinkage

(Continued from page 3)

If the Secaucus DC didn't account for the lost millions, what did?

"Ames grew so fast [after buying Murphy Marts in '85], that systems and controls were stretched to the limit," Yaeger said. "We had to go back and plug a lot of holes.

"We've put in a whole lot of new stuff," Yaeger said, "and are looking for a lot of progress in 1988."

Among the anti-shrink programs for the last half of 1988 will be so-called "honesty tests" for employees at 18 new stores under construction.

Ames will be testing two aspects, according to Yaeger. Can the chain handle the tests from an administrative standpoint and will they produce results for Ames?

Although committed to begin pre-employment screening, Ames has yet to select a vendor.

One test under consideration involves more than testing for attitudes about honesty, Yaeger said. It also looks for employee attitudes about productivity, safety awareness, propensity toward violence and drug avoidance, he said.

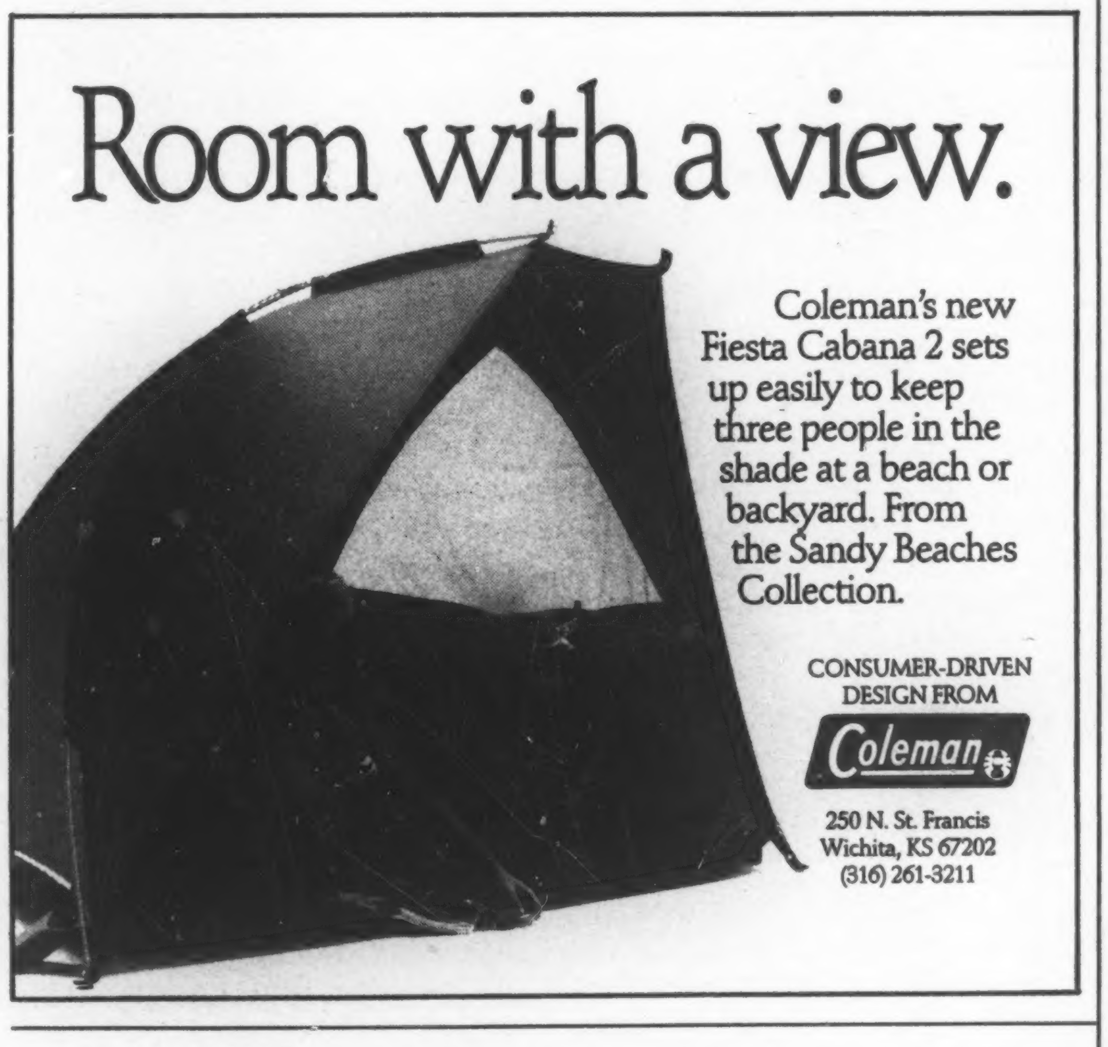
Yaeger objected to the term, "honesty test." Ames won't adopt any of the pure honesty tests on the market, Yaeger said, because Massachusetts has banned such tests, along with lie detector tests. The company doesn't want to begin using a test that won't be legal in all 50 states, he said.

Other states probably will follow Massachusetts' lead in banning written honesty tests, Yaeger predicted.

Another technique Ames is testing in its efforts to solve its widely-publicized inventory problems is the Knogo Electro-Thread, a hard-to-detect type of electronic article surveillance tag, placed in several stores last November, including 10 in Baltimore.

The EAS system has had a "significant impact," Yaeger said, without offering details. "It's done its job."

Ames now is reconciling tapes of its year-end inventory taken in early January and is scheduled to release results March 24.



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No Decision on Co. Sale

Ward Realigns Staff, Seeking Grocery Tie

(Continued from page 3)

"Since Toys "R" Us, he's [Brennan] been looking at other retailers for similar arrangements," said Charles Thorne, media relations manager. Ward initiated combination stores with the retailer in the fall of 1986 at a Gaithersburg, Md. unit. Now there are four such units "and there's been talk about expanding" further, Thorne said.

The realignment of field management gives each of Ward's four specialty merchandise categories—Electric Avenue, Auto Express, Home Ideas and Apparel—their own separate field organizations.

The new plan created 10 merchandise directors, an additional apparel vice president and 115 district merchandise manager posts.

"It's our belief that to accelerate our progress as a specialty retailer, we simply have to put more merchandising resources in the field and place accountability and responsibility closer to the customers. That's what this realignment does for us," said Brennan in a prepared statement.

Brennan also noted that the realignment offers more career advancement for Ward executives, especially store managers, than under the general merchandise system.

The district managers will be in the field, responsible for implementing Ward's merchandising and sales training programs at the store level. District managers will report to the merchandise directors who report to the vice president, general merchandise manager in each of the four specialty merchandise areas.

Current field personnel responsible for territorial offices and area managers will continue to oversee store operations, asset redeployment, logistics and customer service.

The only reduction in field operations is the elimination of territorial headquarters in Los Angeles and Kansas City.

Stop & Shop Agrees to Cash Buyout

(Continued from page 2)

Until unspecified "events" make it fruitless, Dart will keep extending its offer on a day-to-day basis in the hopes of convening a special stockholders meeting March 30.

Dart wants the meeting so it can attempt to oust Stop & Shop's board of directors as a way around the firm's poison pill defense. The board can give stockholders the right to buy additional stock at a bargain price in the event of an unfriendly takeover. In the KKR deal, the board opted to forgo that defense, along with the protection it could claim under Massachusetts' anti-takeover law.

With 27.9 million Stop & Shop shares outstanding, the $44 offer indicates a total value of $1.23 billion. Of those shares, Dart owns 3 percent, or about 837,000 shares.

Operator of Crown Books and Trak Auto, Dart stands to make a pretax profit of about $19 million if it tenders its shares to KKR. Previous attempts of Dart to take over major retailers have resulted in tens, if not, hundreds of millions, in such stock profits.

An exception proved to be its efforts to acquire D-H. After the market crashed Oct. 19, Dart lost some $60 million when the value of D-H stock fell by half, and it had to call off the attack.

Under the terms of a tender, which was scheduled to begin March 4, the buyout is conditional on shareholders' offering two-thirds of Stop & Shop stock by the expiration date and on KKR's being able to line up enough financing.

KKR said it has lined up a commitment from Manufacturers Hanover Trust Co. for a significant, but unspecified part of the takeover financing.

Stop & Shop chairman and ceo Goldberg said in a statement: "KKR is the leading firm engaged in leveraged buyouts and has completed many significant acquisitions of retail companies. We look forward to a productive relationship with them."

Stop & Shop operates 169 Bradlees and 113 supermarkets.

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March 28, 1988

Sports Authority displays a wide selection of activewear and hard sporting goods at everyday low prices. (DSN photo)

Sports Authority Plans Fast Break in Sunbelt

By Peter Hisey

FORT LAUDERDALE, Fla. — Sports Authority, the warehouse-style sporting goods retailer here, is planning aggressive expansion throughout Florida and in several Sunbelt states by the end of the decade.

"There's a shakeout going on in this industry, but we will last," said Jack Smith, chairman of the megastore operation. He was referring specifically to the recent Chapter 11 filing by Los Angeles-based All American SportsClub. That company is preparing to present to the bankruptcy court next month for approval a plan to close two of its eight stores and liquidate some $4 million worth of inventory in the two units, well-informed sources said.

(Continued on page 111)

K mart Office Supply Venture Extends Specialty Store Focus

By Richard C. Halverson

SAN ANTONIO, Texas — With an announcement that it plans to test a warehouse-format office products venture, K mart once more demonstrates its determination to diversify away from a maturing discount store base.

News about the office products specialty store comes on the heels of K mart's purchase of a 51 percent interest in Makro, a Dutch-owned warehouse club chain, and the *DSN* report that K mart plans to test a sporting goods warehouse club, the just-named Sports Giant (see *DSN*, Feb. 1, page 1).

The small increase in K mart's discount store count in 1987 illustrates why the corporation is pushing diversification. Although K mart opened 36 new discount stores in 1987, the total shows a net gain of only 19—to 2,223 from 2,204 in 1986—indicating that it closed 17 existing stores.

Although K mart said its office supply venture is unnamed, the operation, headquartered in a office suite next to Sports Giant, answers its phone as "Office Square."

In another development, K mart chairman

(Continued on page 112)

Ames Tests Office Supply Store

MCKEESPORT, Pa. — Ames will unveil this month the first store in a planned chain of stationery/office supply superstores. Jim McKitrick, president of Ames' G.C. Murphy division, said Office Shop Warehouse will open March 30 in Monroeville, Pa., a Pittsburgh suburb. The diversification is part of Ames' strategy to test specialty concepts.

$3.8B LBO Gives Ward Freedom To Expand Specialty Chain Strategy

By Laura Liebeck

CHICAGO — Bernard F. Brennan, chief executive of Montgomery Ward & Co., said the retailer will remain focused on its specialty store concept when the company goes private this spring and may even make an acquisition of its own.

In addition, Brennan said Ward is poised to introduce an athletic footwear department when it opens stores in Indianapolis and Waukegin, Ill., next month, and will continue refining its apparel department and hard lines merchandise in the seasonal area.

Also, Montgomery Ward is installing a $1 billion Nixdorf point-of-purchase computer system, eventually linking it

(Continued on page 111)

Sears Agrees to Buy Western Auto, Creating $3B Auto Powerhouse

CHICAGO — In a major thrust into specialty retailing, Sears, Roebuck & Co. has offered to buy Western Auto, the nation's largest automotive aftermarket chain.

Added to Sears sales in its 797 auto service centers of close to $2 billion in 1987, the Western Auto sales of $930.8 million in 1987 will result in sales of about $3 billion a year in auto parts and service for the nation's largest retailer.

The acquisition of Western Auto is "an ideal complement," said Sears chairman and chief executive officer Edward A. Brennan, because Sears has been a leading retailer of automotive products and services for decades. Western Auto was founded in 1909 as a retail and wholesale marketer of automotive supplies.

Sears has agreed to buy 52.3 percent of Western stock from certain stockholders, including officers and directors, for $19 a share. Sears offered to buy the balance of the 13 million shares outstanding for a total of $250 million. Western's board approved the merger and recommended that shareholders accept the $19 a share offer.

(Continued on page 112)

Northern Auto Swallows Crown

PHOENIX, Ariz. — In its third acquisition this year, Nothern Automotive Corporation has agreed to buy Crown Auto, Minneapolis, for $8 million.

The latest acquisition gives Northern Automotive another 57 stores for a combined total of about 320. Consolidated sales for the five chains that make up Northern Automo-

(Continued on page 111)

Commerce Releases Dept. Store Sales

Discounters Grab Lion's Share

WASHINGTON — Discount department stores recorded $67.9 billion in sales last year, the first time the U.S. Census Bureau released such a figure—but it is one that doesn't accurately represent the size and scope of the discount store industry.

The International Mass Retail Association reported 1987 discount store sales at $140 billion, a 16.6 percent increase over 1986.

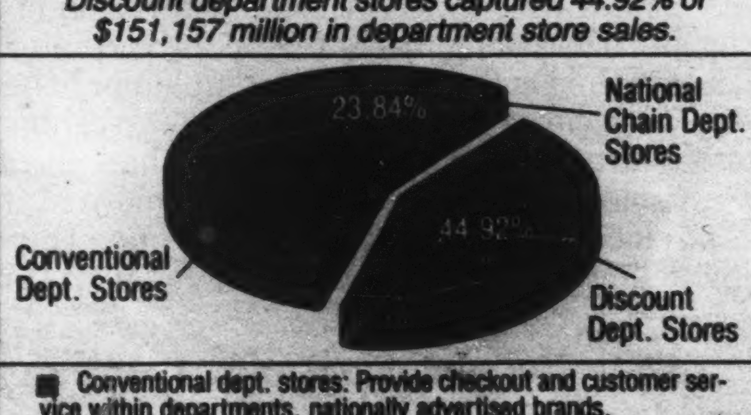
"I'm not particularly impressed with the [Census Bureau] number," said Richard Hersh, president of IMRA. "It severely distorts the impact of this industry and a substantial part of the industry is not included."

IMRA's annual sales number includes all kinds of discount retailers—department stores, toy stores and consumer electronics outlets, among others—whereas the Census Bureau's number is restricted to those discounters that meet specific criteria established by the Bureau for discount department stores.

(Continued on page 11)

1987 Department Store Sales

Discount department stores captured 44.92% of $151,157 million in department store sales.



■ Conventional dept. stores: Provide checkout and customer service within departments, nationally advertised brands.
■ Discount dept. stores: High-volume, self-service, fast-turn units with brand names for less than conventional prices.
■ National chain dept. stores: Checkout/customer service within departments; catalog desk; own corporate brands or unbranded.

Source: U.S. Commerce Dept.; Census Bureau

Activew
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Discounters Cross-Merchandise Books

Warehouse Club Census

0024037C DS
MS JEANNE LONG
CONGRESSIONAL INFOR SVC 1E7
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

MARKETWATCH

Zayre Reports 1987 Profits

FRAMINGHAM, Mass. — Zayre Corp. reported profits of $143.3 million on sales of $6.19 billion for fiscal 1987, ended Jan. 30. Sales were up 15.6 percent; income, partly because of the sale of stock in the company's TJX division, was up 60 percent. However, when the stock income of $89.6 million is deducted, operating profits plunged to $33.2 million from last year's $92.4 million. In the fourth quarter, sales rose 6.1 percent to $1.89 billion, but profits dropped sharply, from $43.8 million to $1.8 million in fiscal 1987. Zayre Stores incurred an operating loss of $16.78 million in the fourth quarter and lost $13.89 million overall. TJX, which includes T.J. Maxx, Hit or Miss and Chadwick's of Boston, had a record year; operating income rose 20.3 percent to $125.68 million. Zayre's warehouse operations—HomeClub and BJ's Wholesale Club—posted $18.66 million in operating income, vs. a loss of nearly $12 million in '86. Most of the gain came from HomeClub.

Wysocki Named Prez, COO of Distributor

LINCOLN, R.I. — Ray Wysocki, formerly executive vice president and general merchandise manager for Zayre Stores, has been named president and chief operating officer of Globe Distribution, a major distributor, based here.

Thrifty Corp. Buys 21 Sports Stores

LOS ANGELES — Thrifty Corp., the drug store and specialty retail operator based here, has added to its rapidly growing chain of sporting goods stores with the purchase of Dave Cook Sporting Goods, the 21-unit, Denver-based retailer. That brings Thrifty's sporting goods store total to 181, most of them located in Western and Rocky Mountain states. Last summer Thrifty acquired Gart Bros., which operates 27 sporting goods stores.

Bradlees' CEO Frank Resigns

BRAINTREE, Mass. — Harold Frank, chairman and chief executive officer of Bradlees, resigned on March 15, effective April 22. Frank, 62, said he wants to pursue "other business opportunities." Frank joined Bradlees as president in 1977 from Gold Circle, where he was executive vp. He was elected chairman and ceo of Bradlees in 1983.

Auchan Sets Hypermarket Location

BRIDGEVIEW, Ill. — Auchan, the French hypermarket, will open its first Illinois unit in this Chicago suburb next winter in the Bridgeview Court shopping center opposite a new Venture store that opened on March 13. Auchan will reportedly open in two phases: 129,000 square feet next February, 81 percent of which will be dedicated to grocery items; and the remaining 30,000 square feet to follow, slated for general merchandise and apparel.

Tuesday Morning Opens Northern Units

DALLAS — Tuesday Morning, the closeout chain based here, has expanded its northern store base with openings in Chicago and Baltimore, as well as another in the Atlanta area. Operating primarily in the South and Southwest, Tuesday Morning offers discontinued and overstock gift and home merchandise at discounts ranging from 50 percent to 80 percent.

F&M Acquires 3 Dart Drug Units

WARREN, Mich. — Deep discount drug operator F&M Distributors expects to enter the Washington D.C., area for the first time with the acquisition of three Dart drug store locations. F&M president and ceo Frank Newman said the Dart stores "will complement the other locations we have secured in the greater Washington metropolitan area." The 52-store chain had purchased five Pathmark Super Drug stores in Baltimore in October, and a sixth location there is expected to open this May. After remodeling, the former Darts should open this summer.

Seminar Set on Artificial Intelligence

WELLESLEY, Mass. — Artificial intelligence for retailers will be the subject of a seminar being held by the Retail Technology Group of Babson College's Center for Information Management Studies on April 11. For information on this free seminar contact: Jill P. Stoff, CIMS, Horn 217, Babson College, Wellesley, Mass. 02157. Phone: (617) 239-4531.

FOR THE RECORD

An error in transmission of *DSN*'s Stock Analysis Table resulted in the transposition of several columns of figures in stock charts appearing in the Feb. 15, Feb. 29 and March 14 issues. For latest stock information, see page 109.

Study Forecasts 10% Volume Gain From POS Electronic 'Dollar' Sales

WASHINGTON — Discount chains can expect a 10 percent increase in sales after installing Electronic Funds Transfer systems at the point of sale, according to a recent survey by the Electronic Funds Transfer Association and California-based Benton International.

The lack of widespread business and consumer acceptance of EFT/POS, however, has resulted in the EFTA forming a special task force on debit cards and EFT/POS. The group is charged with identifying barriers to the implementation of EFT/POS and recommending specific solutions.

The need for the task force was pointed out by the EFT-Benton study. According to Benton vice president Wayne Boucher, not only is a 10 percent gain in retail sales after three years of operation expected, but retailers can also count on a 2 percent increase in sales as soon as they adopt the debit card system.

The statistics were announced at a meeting co-sponsored by EFTA and Benton to promote the use of debit card systems by discounters and other retail chains.

Dale Reistad, president of EFTA, said the survey is the "most comprehensive study yet undertaken on the current and future use of debit cards in retailing in the U.S."

EFT/POS, or debit card systems, is an approach which enables retailers to accept a form of payment that automatically "debits," or deducts the exact amount of the purchase from the consumer's checking account.

The retailer must install a computerized system that accepts a special "debit card" from the shopper that automatically transfers funds from the consumer's bank account as payment for purchases.

"At year-end 1986, there were 57 million point-of-sale transactions per year," Boucher said, adding that by 1990 this figure is expected to grow to 1.54 billion point-of-sale transactions per year. He noted that in 1990, debit card transactions will represent 1 percent of all payment transactions in the nation.

The survey that polled retailers in several areas of business, revealed encouraging statistics for chain store operators using the system. Retailers are expecting the new system to help net profits rise steadily in the coming years.

The study predicts that for major retailers, a 1 percent increase in net profits after installing the EFT/POS system will occur. This figure is expected to rise steadily to 4 percent after the fifth year the debit system is in place.

According to Boucher, the debit systems are also expected to reduce credit card losses for major retail chains. He said that EFT/POS requires "better methods of identification" and does a "better job of screening credit card transactions," that prevent fraud.

Because of these improved screening processes, Boucher expects a 1 percent to 2 percent decline in credit card losses for major retailers after three years.

Although Boucher said that smaller retailers are not expected to see reductions in credit card losses, the survey expects major retailers to see a 4 percent decline in credit card losses after five years on the EFT/POS system.

As an added benefit, EFT/POS systems attract new customers, boost the typical retailer's average sale by 50 percent, and increase the level of customer satisfaction significantly, the study found.

Boucher said the consumers like the shorter, faster checkout lines the system creates, as well as the flexibility to use another form of payment.

Although the future looks bright for the debit card system, there are some drawbacks for retailers. According to the survey, retailers can expect higher employee training costs. Boucher said that a 5 percent rise in the costs of employee training in the first year is expected.

SPARC Award Selections Begin

NEW YORK — The 11th annual SPARC (Supplier Performance Awards by Retail Category) program, recognizing manufacturers serving the special needs of the discount industry, is under way, announced Eugene O'Donnell, SPARC committee chairman and vice president and general merchandise manager, Hills Department Stores, Canton, Mass.

Ballots for the first round of nominations for the awards program, sponsored by *Discount Store News*, have been sent to buyers from the Top 100 discount chains.

Following their nominations, a second balloting will be conducted among the industry's general merchandise managers to determine the first, second and third place winners in 18 merchandise categories. *DSN* will announce the top three nominees from the buyers' vote in its June 6 issue. Among the criteria used by buyers to select SPARC award nominees are: self-service packaging, new product innovations, service programs, meeting delivery commitments, quality control and advertising support.

The SPARC awards will be presented at a special banquet in Chicago on Aug. 14.

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Discount Dept. Stores Hit Annual Sales Mark of $67.9 Billion

(Continued from page 1)

The Census Bureau reports sales for retail companies such as CE outlets and apparel stores, separately and without regard to whether the business discounts its prices or charges full margin.

Despite the recording situation—to which IMRA has objected—sales among discount department stores are probably about 7 percent ahead of 1986.

Robert Hayes, chief economist in the research department at K mart, said he has a "sense" that sales are up about 7 percent. Hersh said he concurs with that estimate.

Next year, both Hayes and Hersh expect sales to rise more modestly, about 5 percent to possibly 7 percent.

Hayes said he expects sales at discount department stores to remain soft for the early part of 1988 and pick up momentum during the second half of the year, producing an annual sales gain of about 5.2 percent, with no adjustment for inflation.

Until 1992, after several seasons of recording sales data, the Bureau will be reporting discount department stores sales "unadjusted" for seasonal variations. Therefore, the monthly and annual sales reports will continue to reflect actual sales activity.

Discount Dept. Store Sales

Sales for discount department stores in 1987 were 41.2 percent of the total for the general merchandise group.

The general merchandise group, which includes sales results for conventional department stores, discount department stores, national chain department stores, variety stores and miscellaneous general merchandise stores, reported 1987 sales of $164.79 billion, unadjusted, up 6 percent from 1986.

Total retail trade for last year was $1.51 trillion, unadjusted, up 3.6 percent from 1986. Excluding the automobile group, retail sales were an unadjusted $1.17 trillion, up 4.3 percent from 1986.

The recent Census Bureau sales report included preliminary sales receipts for December, revealing that discount department stores had a very good 1987 Christmas season.

Sales at discount department stores rose 57 percent in December, to an unadjusted $10.4 billion, the largest increase recorded all last year.

Hayes was not surprised with the Census number for December because the final two months of 1987 produced "two of the best months of the year" for K mart.

In fact, December was a particularly good month for retailers, especially in the general merchandise group, with a November-December sales gain of 60 percent, to $26.29 billion, unadjusted.

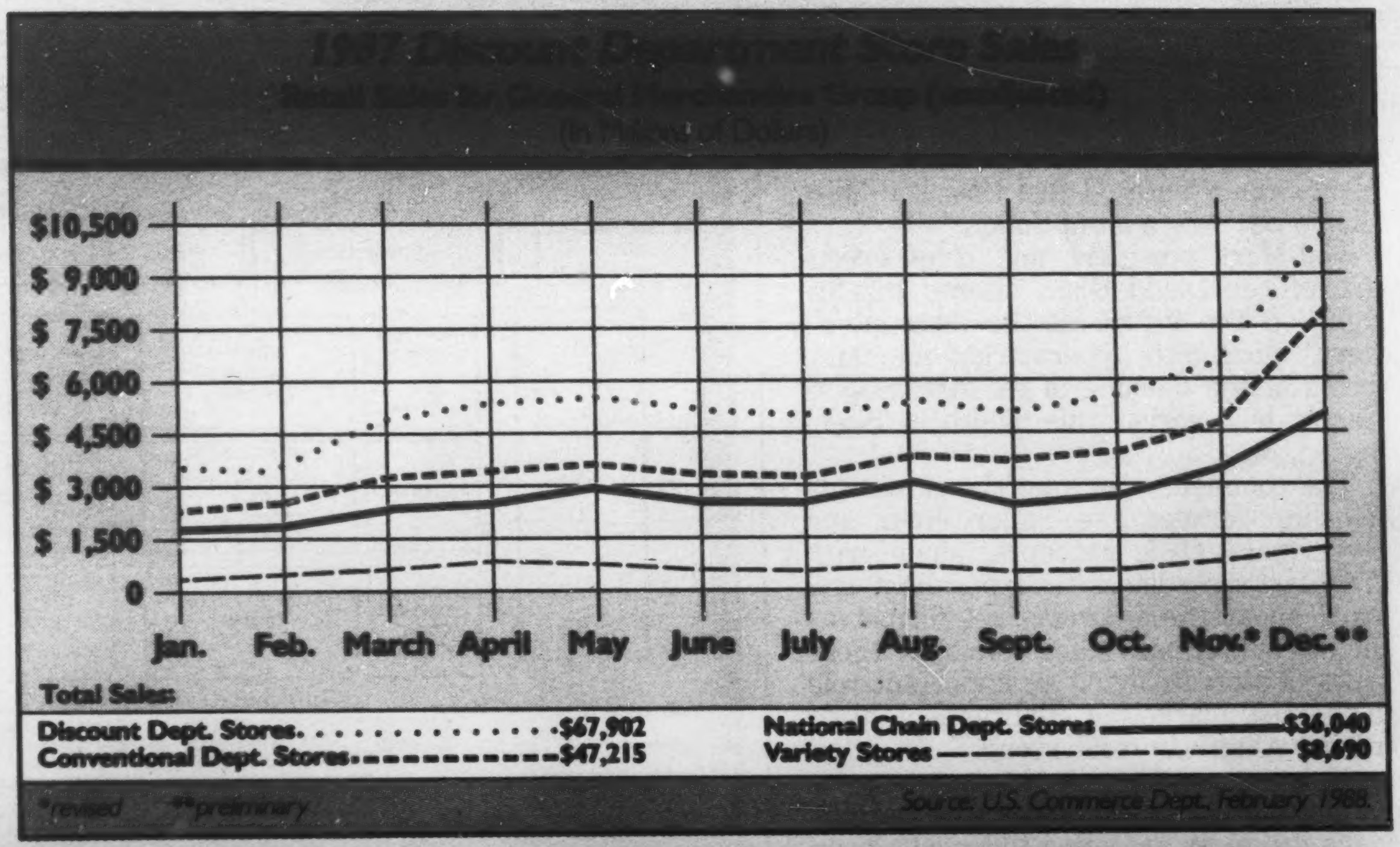
Total retail trade recorded a 23 percent gain to $154.7 billion, unadjusted. Retail sales excluding autos rose 28 percent in December, to an unadjusted $128.26 billion.

Within the general merchandise group, the largest sales increase for December was recorded by variety stores, up 89 percent to an unadjusted $1.38 billion. For the year, sales were up 2.8 percent, to $8.69 billion.

Conventional department stores sales, including leased departments, gained 70 percent in December, to an unadjusted $8.22 billion. For all of 1987, sales were $47.2 billion.

In addition to discount department stores, conventional department stores and national chain department stores just completed their first year of separate Census Bureau reporting. Therefore, no annual comparisons may be made for these retailing divisions.

National chain department stores had the smallest December sales increase, 44 percent to $5.27 billion, unadjusted. For the year, national chain department stores recorded sales of $36 billion.



Source: U.S. Commerce Dept., February 1988.

From clock radio phones to multi-line business phones to sleek, Euro-style decorator phones, nobody offers greater value or profits than Soundesign.

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Profit that has a nice ring to it.

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Ad Activity Survey: Housewares, Target, January 1988

Product	Brand	Model/ Description	Sale Price	Regular Price
Bakeware	Ecko	Baker's Secret/asst.	$2.00	$2.49-3.99
Glassware Set	Anchor Hocking	Aurora/24-piece	8.00	9.99
Ironing oard	No label	multi-height adj.	10.00	
Scale	Borg	keystone or wicker	10.00	14.99
Laundry Basket	Rubbermaid	extra large	5.00	
Microwave Cookware	Anchor Hocking	freeze/heat/serve	3/4.00	
Crates	No label	space stack	2/4.00	2/7.98
Food Keepers	Anchor Hocking	microwave, asst.	3/4.00	4.47-6.57
Hamper	Rubbermaid	extra large	8.00	
Hangers	No label	jawbreaker, 2-pk.	1.00	1.29
Popcorn Popper	No label	microwave, 3-qt.	3.00	4.99
Trash Can	Tucker	plastic, colored, 32-gal.	7.00	11.99

Source: Vereen & Associates, Indianapolis, March 1988

Ad Activity Survey: Housewares, Shopko, January 1988

Product	Brand	Model/ Description	Sale Price	Regular Price
Bakeware	Foley	asst.	$1.00	$1.49
Cake Pan	Foley		5.99	7.99
Cookware	Foley	7-piece	29.99	34.99
Griddle/Grill	Meyer	12-inch	10.00	
Ironing Board	Eveready		11.99	14.99
Saute Pan	Meyer	8-inch	6.00	7.99
Saute Pan	Meyer	12-inch	9.99	12.99
Laundry Basket	Rubbermaid		2/5.00	3.99
Laundry Basket	Tucker		2/5.00	2.99-3.99
Blanket Boxes	Sterilite Tucker		4.99	6.99
Crates, Bins	Ingrid Tucker	oblong	3.99	5.99
Milk Crate	Tucker		2/5.00	2.99-3.99

Source: Vereen & Associates, Indianapolis, March 1988

New Monthly Ad Survey Details Chains' Activity

NEW YORK — Among the most often advertised housewares merchandise on sale at discounters after the holiday season were bakeware, laundry baskets and assorted storage products, according to a survey of retailers' advertising during January.

The Ad Activity Survey, conducted by Vereen & Associates, Indianapolis, is a detailed monthly report on items, brands, models, and prices of various products advertised by major retailers across the country.

Starting with this issue, *DSN* will spotlight various product categories and provide specific marketing information on different discount chains' advertising strategies, culled from the reports.

The information provides retailers with the opportunity to compare what's being advertised, at what price (and even to calculate the percent markdown to sale price).

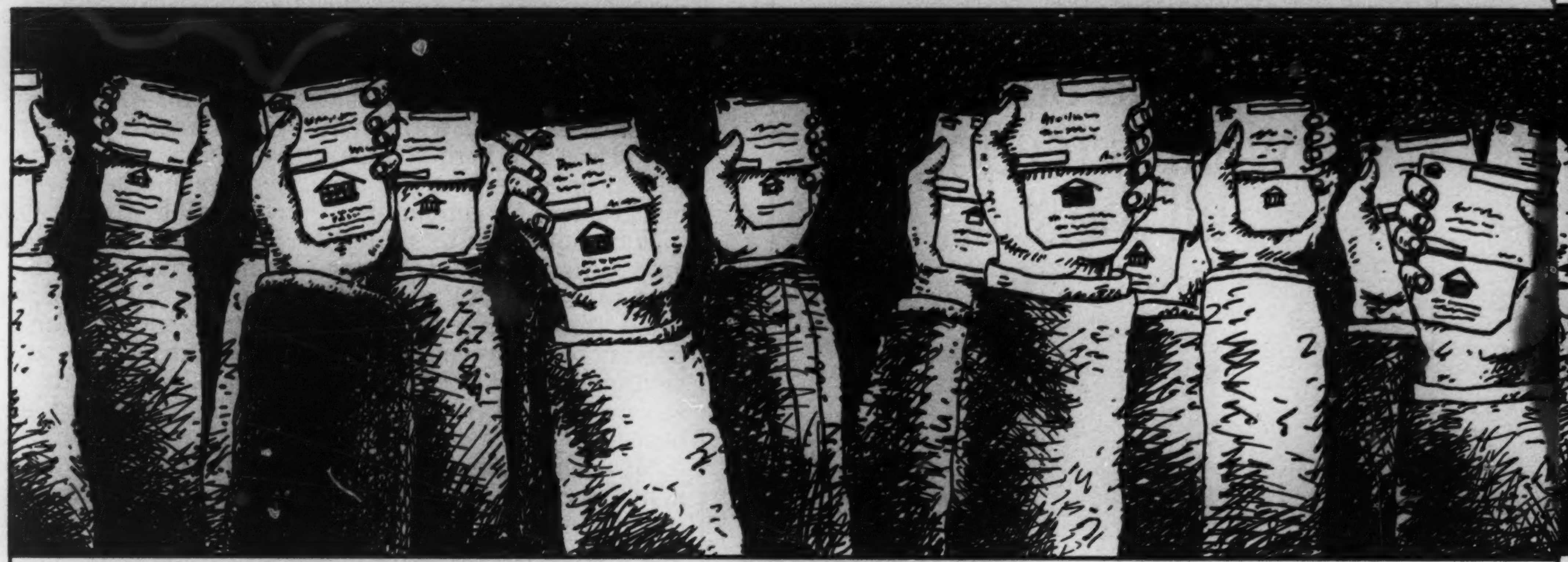
This issue provides charts highlighting ad activity in housewares by Ames, Venture, ShopKo and Target.

Overall, in all categories, ad activity among the major discounters slowed significantly in January from the previous month, as would be expected after the Christmas ad blitz. However, Zayre, in particular, cut back sharply, according to the survey, using only one circular in January. Ames, Bradlees and Gold Circle were also less aggressive, said the report.

Looking at themes in circulars, "Stock Up" received a heavy emphasis, especially in lower-priced consumables.

The survey also pointed out that Zayre is running small-type disclaimers in its circulars stating that only 1,000, 2,000 or 3,000 of certain items are available in each store. At about one or two dozen per sku, the report speculates that these sales can't affect markdown much when the on-hand quantity is so low.

A report on ad activity in February is expected to be released later this month and be available for publication in an April issue of *DSN*.



LOOK WHO'S REGISTERED EARLY FOR NHMA's ALL-NEW MIDYEAR SHOW

As you can see from the distinguished list of companies who've already registered, there will be no lack of excitement. Even as we write this, more and more registrations stream in daily.

The excitement is indeed warranted. Here is an all-new midyear event filled with new products and new ideas. NHMA members/exhibitors will be displaying more than one million products within 400,000 square feet under one roof. Many of these exhibitors have scheduled product introductions and special promotional activities expressly around this show, so that Housewares buyers and merchandisers can preview new products and fine-tune their merchandising plans for the months ahead.

It truly is a "Customers' Show." And being there means being abreast of the latest Industry ideas, innovations and trends.

So be sure to be on hand. It's the best way to keep pace with the innovative Housewares Industry—hands down.

Don't miss the Midyear Housewares Show

July 10-13, 1988

There's only one. NHMA's, of course.

ACA CORP., INC.
A DOUBLE M CORP.
A-1-A RESOURCES CORP.
A-BEE SYNDICATE, INC.
ACCENT LAMP & SHADE CO., INC.
ACE INDUSTRIES, INC.
ACTION INDUSTRIES, INC.
ADVANCE WATCH CO.
AFFORDABLE FURNITURE
ALABASTER INDUSTRIES, INC.
ROBERT ALAN CANDLE CO.
ALARON, INC.
ALCAN ALUMINIO DO BRASIL S.A.
ALCO INDUSTRIES, INC.
ALLIED PLASTICS, INC.
ALSTON QUALITY INDUSTRIES
ALUMINUM HOUSEWARES CO., INC.
AMBRAS INTERNATIONAL
AMERICAN BRAVO CO.
AMERICAN CONCEPTS
AMERICAN HOMEWARE
AMERICAN INTERNATIONAL
ANACAPA CORP.
ANCHOR HOCKING PLASTICS
ANDIS CO.
ANSA BOTTLE CO., INC.
ANSELL-AMERICAS
ARMALY SPONGE CO.
ARROW PLASTIC MFG. CO.
ARTFIELD & CRAFTSMEN, INC.
ARTISTIC GIFTS, INC.
ASSOCIATED MILLS, INC.
ASTRA TRADING CORP.
ATLANTIC REPRESENTATIONS
ATMOSPHERIX LTD.
AUSTIN-ABBOTT, INC.
AZAR INDUSTRIES, INC.
BACK TO BASICS PRODUCTS
BACOVA GUILD LTD.
BANDWAGON, INC.
BANGLADESH EXPORT
BASCO, INC.
BASE LINE DESIGN, INC.
BASIC LINE, INC.
BEAUTI GLIDE
BEE HOUSE CO., LTD.
BEH HOUSEWARES
BELCREST, INC.
BEMIS CO., INC.
BEMIS MFG. CO.
BENHAR-ANGUS MILLS
BENNINGTON POTTERS, INC.
BERG INTERNATIONAL
BERG PRODUCTS DESIGN, INC.
BISSELL, INC.
BLITZ MFG. CO., INC.
JERRY BLOCH, INC.
BONJORNO, INC.
BORTNER & BORTNER, LTD.
ROBERT BOSCH CORP.
BRAZILIAN TRADE PROMOTION
BRIGHT OF AMERICA
BRINKMANN CORP.
BROCKWAY STANDARD, INC.
BROMWELL HOUSEWARES, INC.
BROOKPARK PLASTICS, INC.
BROTHER INTERNATIONAL CORP.
BRUNSPORT, INC.
BULOVA WATCH CO., INC.
BUNN-O-MATIC CORP.
BURNETT MFG. CORP.
BURWOOD PRODUCTS CO.
BWI, INC.
CALIFORNIA CLOCK CO.
CANDLE-LITE
CANETTI, INC.
CAPITOL PRODUCT
CARDINAL COMB & BRUSH
CARDINAL PRODUCTS, INC.
CAROUSEL INDUSTRIES, INC.
CARTHAGE CUP CO.
CASE MFG. CO., INC.
CASE/CASARD
CATHAY GROUP CO.
CATHAY INTERNATIONAL
CATSKILL CRAFTSMEN, INC.
C+D+P CORP.
CEDARBROOK MFG. CORP.
C+G+S INTERNATIONAL, INC.
CHADWICK-MILLER, INC.
CHAIN STORE GUIDE
CHANEY INSTRUMENT CO.
CHAO-YANG ELECTRIC MFG. CO.
CHARLESWOOD FURNITURE CO.
CHEFMATE HOUSEWARES CORP.
CHEROKEE FRAME CO.
CHEYENNE INDUSTRIES
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CHURCHILL CONTAINER CORP.
CIMARRON ENTERPRISES
CITY QUARTZ, INC.
CLAIRSON INTERNATIONAL
J.R. CLARK CO.
COASTER CO. OF AMERICA
COLOR & HERBAL CO.
COMMERCIAL ALUMINUM COOK
COMPAC INDUSTRIES, INC.
CONAGRA PET PRODUCTS CO.
CONAIR CORP.
CONCORD ENTERPRISES, INC.
CONIMAR CORP.
COPPERSOURCE
PAOLO CORAZZI FIBRE SRL
CORD CRAFTS, INC.
CORNELL INDUSTRIES, DIV. OF COSMEPAX
COUNTRYSIDE FRAGRANCES, INC.
COVE WAX WORKS
CREATIVE HOUSE
CREST INDUSTRIES CORP.
CROWE ROPE CO.
CROYDEX, INC.
CRYSTAL CLEAR INDUSTRIES
CUCKOO CLOCK MFG. CO., I
CYRUS TRADING CORP.
DANA LIGHTING, INC.
DARS MET-ALL INDUSTRIES, INC.
A.K. DAS CO., INC.
DAVIDCRAFT CORP.
DAWN CREATIONS, DIV. OF DECOREL
DEFLECTO CORP.
DEMEYERE U.S.A., INC.
JORGE D.J. DESCALZO
DESIGN IDEAS
DESIGN TREND, INC.
DETROIT PLASTIC MOLDING CO.
DIAL INDUSTRIES, INC.
DIANA HOME FASHIONS, INC.
DING-SHENG INDUSTRY CO.
DISCOUNT STORE NEWS
DONIE CHAIR CO., INC.
DOSKOCIL MFG. CO., INC.
DRAGONS ARE TOO SELDOM
DRUG STORE NEWS
DUCHESS ROYALE, INC.
DURABLE ALUMINUM CO.
DYNASTY DESIGN
DYNASTY IMPORTS, INC.
E&B MFG. CO.
EAGLE AFFILIATES

Ad Activity Survey: Housewares, Ames, January 1988

Product	Brand	Model/ Description	Sale Price	Regular Price
Bakeware	Ekco	Baker's Secret	2/$3.00	$2.19-4.99 ea.
Chicken Fryer	Mirro	12-in.	2/20.00	12.99 ea.
Drip Pans	No label	6-in. or 8-in.	2/4.00	2.29-3.29
Fry Pan Set	Mirro	3-piece	2/20.00	12.99 ea.
Ironing Board	Lady Seymour		9.99	14.99
Ironing Board Cover	Magla		3.99	5.59
Digital Scale	Sunbeam		19.99r	29.99
Thermometers	No label		2/4.00	2.29-3.29
Basket	Tucker	small	6/2.00	0.69 ea.
Basket	Tucker	medium	4/2.00	0.79 ea.
Basket	Tucker	large/round	3/2.00	0.79-0.99 ea.
Laundry Basket	Frem Corp.	round	2/4.00	2.99 ea.

r—with rebate

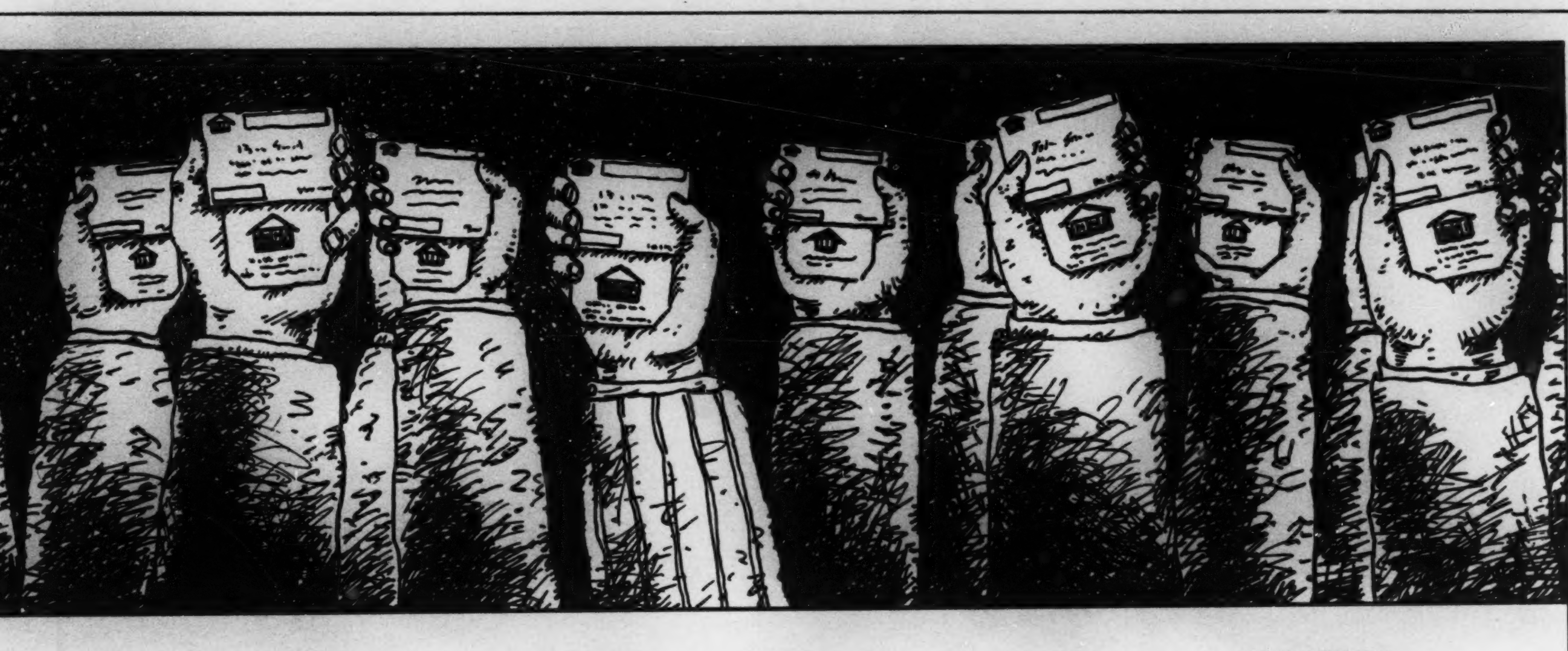
Source: Vereen & Associates, Indianapolis, March 1988

Ad Activity Survey: Housewares, Venture, January 1988

Product	Brand	Model/ Description	Sale Price	Regular Price
Bakeware	Baker Eze	rnd. pan/muffin loaf/pizza	3/$5.00	$1.84-2.99
Cookware Set	Corning Visions	5-piece	18.00	24.99
Digital Scale	Sunbeam		3.00r	39.99
Laundry Basket	Rubbermaid	large	5.00	7.49-7.99
Laundry Basket	Rubbermaid	sq. floral/rect.	3.00	3.49-4.99
Bath Mats	Rubbermaid	octagonal/oval	3.00	3.49-4.99
Bowl Brush Set	Rubbermaid		3.00	3.49-4.99
Dish Pad	Rubbermaid		3.00	3.49-4.99
Folding Crate	No label		5.00	8.99
Lift Lid	Rubbermaid		5.00	7.49-7.99

r—with rebate

Source: Vereen & Associates, Indianapolis, March 1988



EASTERN ELECTRIC CO., INC.
EASY-PLAN INDUSTRIES LIMITED
J.T. EATON & CO., INC.
EDGECRAFT CORP.
ELAN PRODUCTS, INC.
ELCO LAMP & SHADE STUDIO, INC.
ELGIN CLOCK, DIV. ELGIN
EMRUSS CORP.
ENDURA, INC.
ENSAR CORP./HANDI-FOIL CORP.
EPILADY USA, INC.
EQUITY INDUSTRIES CORP.
ETNA PRODUCTS CO., INC.
EVER-READY APPLIANCE MFG. CO.
EVERINGHAM BROTHERS LTD.
EXCLUSIVE AGENCIES CO.
EXOTIC WOOD FLOWERS, INC.
EXTRUFIX, INC.
EYE ENCOUNTER
E+Z POR
FAST INDUSTRIES, INC.
FEIT ELECTRIC CO.
FELKNOR INTERNATIONAL
FERNANDA MFG., INC.
FERRA-STONE
FISKARS MFG. CORP.
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LEONARD FLORENCE ASSOC.
FORDYCE PICTURE
FORMOSA PANTHERS (USA) CORP.
FORTUNA CLOCK MFG. CORP.
FOURNIER FURNITURE CORP.
FRANCO MFG. CO., INC.
FRANKLIN CONTROL CO.
FREEDOM BLADE
FUJIWARE AMERICA, INC.
G&S METAL PRODUCTS CO.
GS DESIGN, INC.
G.E.T. ENTERPRISES, INC.
GEM ELECTRIC MFG. CO., INC.
GEMINII DISPLAY LTD.
GENERAL FOAM PLASTICS CORP.
GENERAL WAX CO.
GENIECO, INC.
GERBER LEGENDARY BLADES
GESSNER PRODUCTS CO., INC.
GIB LINZ INC.
GIBSON OVERSEAS, INC.
GIFTS & DECORATIVE ACCESSORIES
GLASHAUS, INC.
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GOLDEN STATE PICTURE FRAME
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GOURMET HOUSEWARES, INC.
GREAT GREENERY CO.
GREENBRIER STUDIOS
GTC INTERNATIONAL, INC.
GUSDORF CORP.
GUSTIN-KRAMER CO.
H&A ENTERPRISE CO., LTD.
H&L ENTERPRISES
H&P MAYER CORP.
HACHAR IMPORT INC.
W.J. HAGERTY
HALLCREST PRODUCTS
HANGABLES, INC.
HANNA ENTERPRISES, INC.
HAPPY HOME PET PRODUCTS
HAPPY WORLD PRODUCTS, INC.
HARBORTOWN DIV./I+B+R CO.
HARRIS POTTERIES
HART FIREPLACE FURNISHINGS
HARWOOD MFG. CO.
HAWKINS COOKERS LTD.
HELLO PRODUCTIONS, INC.
HELMAC PRODUCTS CORP.
HENRIKSEN IMPORTS, INC.
HHS TRADING CANADA, INC.
HIMARK ENTERPRISES, INC.
HITACHI SALES CORP.
HOAN PRODUCTS LTD.
HOFFRITZ INTERNATIONAL
HOKY INTERNATIONAL MKTG. CO.
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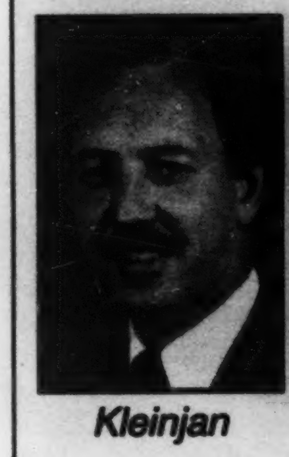
NHMA NATIONAL HOUSEWARES MANUFACTURERS ASSOCIATION

MANUFACTURER NEWS

Selfix Inc., Chicago, has announced the appointment of **Mike Ricard** to the position of Director of product development. He will be responsible for all research and development activities, reporting directly to president Robert Mariani.

Melitta, Cherry Hill, N.J., has announced the appointment of **Donald J. Cook** to the post of vice president of sales for the Melitta USA retail division. Cook's responsibilities will include directing the retail sales efforts of the company through housewares and grocery channels, in line with the company's coffee perfection strategy.



Kleinjan

Wilson

Rubbermaid Inc., Wooster, Ohio, has announced that **Gary E. Kleinjan** has been named vice president of sales for the home products division. In another move, **Franklin D. Wilson** has been named director of marketing for Gott, part of the home products division. Wilson will report to Charles A. Carroll, vice president and general manager for Gott.

The **Electronic Industries Association Consumer Electronics Group, Washington, D.C.**, has named **Don Hatton** staff vice president of product services. In a related announcement by CEG vice president Tom Friel, **Margaret Cassilly, Tom Mock** and **Cynthia Saraniti** have been named director of administration, CES, director of engineering and director of communications respectively.

Discounters Set to Propel Warehouse Club Growth

By Arthur Markowitz
Nationwide DSN Report

Two discount store chains, K mart and Wal-Mart, are likely to become the big newsmakers this year in the membership warehouse industry.

K mart plans to become a major player following its entry into the industry last month through the purchase of a controlling interest in Makro (see *DSN*, March 14, page 1), a four-store European-type operation. Makro will almost double in size this year with the opening of three clubs, and over a dozen more are planned for next year.

Wal-Mart, meanwhile, is poised to become the leading membership warehouse operator by opening 18 Sam's Wholesale Clubs this year to become the first chain to break the 100-store mark with 102 units. That growth could also propel Sam's into the top volume spot past the Price Club, the industry's founding chain and, up to now, the sales leader.

Overall, the nation's dozen largest membership warehouse club chains—which account for more than 95 percent of the industry's sales—plan to open about 60 more stores this year, setting the stage for another double-digit jump in the clubs' volume.

The industry's overall expansion, however, masks the sharply different merchandising and operating tacks that the various clubs are pursuing.

One direction, taken by the profitable clubs, is continued growth, adding stores and piling on sales. Almost all the new clubs—50 units—are due to be unveiled by the top seven chains, which either are profitable public companies like Price Club and Costco or are part of larger firms and reported to be in the black by their parents—Wal-Mart (Sam's) and Zayre (BJ's).

In a number of cases—Costco, PACE and BJ's—this expansion will be reined in this year to allow earnings to catch up to previous years' rapid growth in stores.

Other clubs plan very limited expansion, concentrating on improving the bottom line by boosting volume of current stores to the critical sales mass that makes a unit profitable. Publicly-held operations like The Wholesale Club and Warehouse Club, for example, both lost money last year and will focus on increasing sales in 1988. Only The Wholesale Club plans to add any stores, two, including one in the Carmel suburb of Indianapolis, its third in its home market and fifth in the Hoosier State.

From an operations point of view, membership warehouses are either strengthening their focus on serving their business members or offering services like bank credit cards and manufacturer cents-off coupons that will make their operation more attractive to group (consumer) members.

Makro, for example, is adding serviced bakeries and deli sections in its

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Top Membership Warehouse Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		
	1987	1986		1988	1987	1986
Price Club San Diego, Calif.	$3,236,321	$2,590,319	24.9%	41	37	27
Sam's Wholesale Club Bentonville, Ark.	2,670,000	1,678,000	59.1	102	84	49
Costco Seattle, Wash.	1,370,031	747,042	83.4	55	43	22
PACE Aurora, Colo.	939,560	595,079	57.9	36	33	25
BJ's Wholesale Club Natick, Mass.	575,000*	350,000	64.3	23	19	15
Makro Cincinnati, Ohio	310,000*	290,000	6.9	7	4	4
Price Savers Salt Lake City, Utah	300,000*	174,000	72.4	18	12	6
The Wholesale Club Indianapolis, Ind.	271,659	158,443	71.5	17	15	11
Warehouse Club Niles, Ill.	228,392	157,311	45.2	12	12	10
Buyer's Club Englewood, Colo.	120,000*	80,000	50.0	7	4	3
American Wholesale Richardson, Texas	100,000*	50,000	100.0	6	4	2
Club Wholesale Meridian, Idaho	70,000*	40,000	75.0	8	6	3

*—DSN *estimate*

Source: Discount Store News; *annual reports*

Club Wholesale president Phil Roark (left) and marketing vp Will Mathwig in the Boise, Idaho-based chain's first California club. (DSN photo)

Club Wholesale Caught in Vice Of Tough L.A. Club Competition

ONTARIO, Calif.— With 13 membership warehouse clubs competing for market share in a 60-mile corridor between Los Angeles and San Bernardino, it's easy for a warehouse to get lost in the shuffle.

Such has been the case for Club Wholesale, a six-store chain based in Meridian, Idaho. Begun in 1983, the chain opened its first and only California unit last year.

Located near a freeway offramp, Club Wholesale's warehouse site in Ontario seemed like an ideal location when the company purchased it in August 1986. The chain was even able to obtain a revenue bond from the city, which seemingly made the deal too good to refuse.

The site also afforded additional space for container breakdown and consolidation, and an extension of the Port of Long Beach supplied a duty-free port.

But since the Ontario site opened one year ago, eight other competitors have moved into the nearby vicinity, and the location, it turns out, is not quite so ideal.

Company president Phil Roark said that if the chain had had the foresight to realize how competitive the area was to become, Club Wholesale would probably have avoided the entire Los Angeles basin altogether.

However, excluding the Ontario warehouse, Roark said the company's remaining facilities are doing

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Membership Clubs Battle For Turf in Southern Calif.

(Continued from page 95)

Not surprisingly, Price Club holds a key stake in the Inland Empire with three warehouses currently open and a fourth planned for later this year.

PACE moved into the area only last year, but has already established three units in the area, and Costco and Price Savers have each set up two locations. Added to this contingent are singular Buyer's Club, Club Wholesale and Saveco sites.

So what is the Inland Empire's attraction? The draws are multiple, but the primary reason lies in Southern California's familiarity with the membership club format, according to industry and area experts.

It was here that San Diego-based Price Club first introduced the concept, and area businesses and residents have easily learned to accept, enjoy and shop at warehouse clubs.

While the entire market has this benefit, the Inland Empire holds additional drawing power to the membership warehousers. With bottom line costs closely monitored throughout the industry, the savings available here in terms of relatively cheaper land values make the area considerably more affordable than the Los Angeles market's coastal areas.

According to a consultant to San Bernardino's development department, real estate is 25 percent to 30 percent cheaper in the Inland Empire than it is further west. Added to this is a growing population base, which according to area studies increased some 30 percent between 1980 and 1987.

The Inland Empire also boasts plenty of freeways—which most clubs contend are necessary for easy customer accessibility—in addition to major rail lines and a centrally located airport which caters to the freight business.

With this customer, transportation and real estate base drawing so many clubs to the area, it is no wonder that overlapping and nearly face-to-face confrontations have already occurred.

In the City of Industry, Seattle-based Costco and Salt Lake City-based Price Savers have warehouses on the same street, making them almost next door neighbors. Also vying for customer dollars in this area are Denver-based PACE, located 15 minutes away, and Price Club, about 20 minutes away.

Competition is also intense in metropolitan San Bernardino, where an Englewood, Colo.-based Buyer's Club faces off against PACE. Here again, Price Club is nearby, and so too, are Costco and Saveco warehouses.

This intense competition has forced each club to carve out its own distinct niche. To examine these differences *DSN* conducted an extensive market study over a three-day period in late February.

While every one of the clubs could easily be thought of as a Price Club clone, very few of the clubs actually follow the leaders' merchandising philosophy of offering a lot of categories in limited selections.

It is the scaling down of total categories and expansion of the selection in distinct areas that has created each clone's uniqueness. And in doing so,

(Continued on page 101)

Discounters Set to Propel Membership Warehouse Growth

(Continued-from page 97)

current clubs and will include these departments in all new stores, starting with the two units in Cleveland and one in Baltimore set to be opened this year. Makros are already set for Cherry Hill, N.J., and Hartford, Conn., next year as part of K mart's plan to open wholesale clubs in New England, the Middle Atlantic States and Florida.

These sections show Makro's positioning as an upscale membership club, offering businesses a much wider assortment of items—25,000 sku's—than the more targeted format developed by the Price Club which merchandises only about 4,000 sku's, focusing on items in greatest demand among its members.

K mart plans to grow Makro into a billion dollar business within a few years, just as it did to Builders Square, its warehouse home center division which it purchased as a two-store operation in 1984.

Business-Oriented Image

The Price Club, in a move to enhance its image as a business-oriented club, has begun to eliminate group members as a free membership category. It charges a fee to all members at most of its clubs, and they all buy merchandise at the same price. Additionally, Price now considers individual professionals and contractors, even those in a group business practice, as small businesses, eligible for their own cards.

Price has also augmented its operations to provide more services to members. The key move here was launching Price Club Industries to develop new businesses that the company can provide to members at the same low cost as its core wholesale club merchandise assortment. Among the first such services were optical centers, so far in 11 stores, with tests of a gas station and a pharmacy underway.

The Price Club, which lost its store count leadership position to Sam's in 1985, plans to open at least four stores this year, one each in Corona, Calif.; Glendale, Ariz.; Hampton, Va.; and White Marsh (Baltimore), Md. These units denote the Price Club's focus on filling in markets where it already has clubs so that it becomes more difficult for competitors to come into the area and operate profitably.

Wal-Mart's membership warehouse efforts involve:

- Bringing the volume of 18 former Super Saver stores, which it purchased in mid-1987, up to Sam's typical $50 million sales level. This move could generate over $800 million in sales from an operation that Wal-Mart purchased for about $40 million.
- Continuing to plant Sam's throughout the South and Midwest, relatively understored markets for membership clubs, while avoiding the highly competitive East and West Coasts.

Sam's growth this year is likely to push the wholesale club's volume to the same $4 billion level that the Price Club is expected to reach, even though each Wal-Mart membership warehouse generates only about half the sales of a Price Club.

The other four top membership warehouses are following a measured growth program while augmenting their services to members.

Costco has begun to roll out an expanded offering of fresh meats and produce as its key service enhancement for 1988. Last year it greatly expanded its pharmacy effort, closing 1987 with 14 pharmacies in operation while also beginning to install optical centers.

Costco plans to open 12 clubs this year, an expansion pace topped only by Sam's. The new Costcos already set include a unit in Honolulu, the first in Hawaii, plus five more stores in California: in Hawthorne, Van Nuys, Lancaster and Victorville in the south and Fremont in the north.

A new service offered by a number of membership warehouses was acceptance of credit cards, either those issued by banks or by the wholesale club itself.

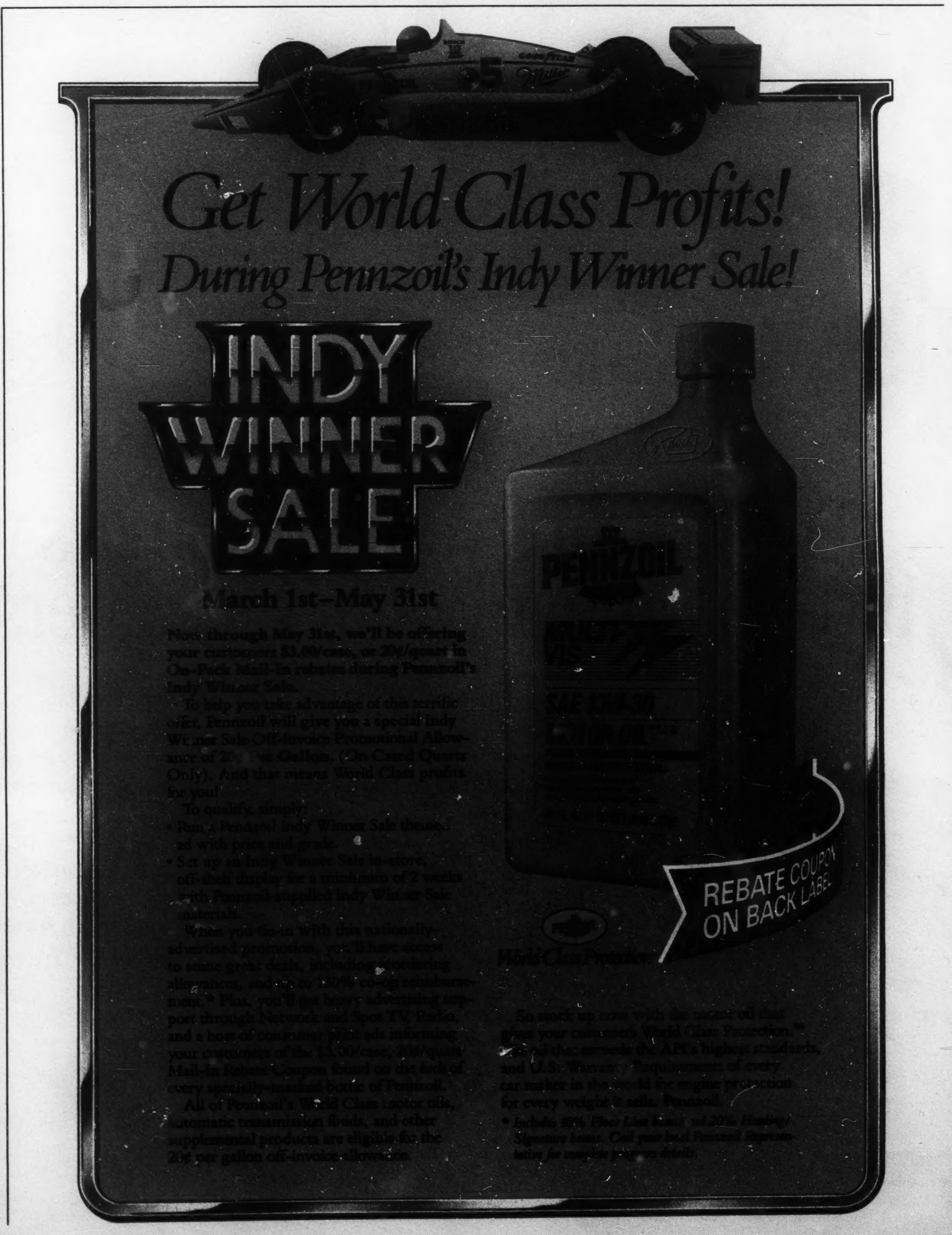
PACE pioneered this enhancement when it became the first company to go beyond the cash-and-carry industry norm by introducing a credit card. Handled by an outside firm, PACE said the convenience card did not necessitate higher prices. The card is still under a test phase at this time, and is not available in all of the company's markets.

The company is focusing its expansion this year on beefing up current markets. It plans to open three units in Southern California, an area that accounted for most of the company's store growth last year. PACE units are also set for Tarpon Springs, Fla., a state where the club already has three stores, and Charlotte, N.C., its second in that city.

Having passed the critical $500 million sales level and reportedly now a profitable operation, BJ's this year is striving to boost individual club volume even higher. The Zayre Corp. subsidiary plans to maintain its four-club-a-year growth, with stores already set for southern New Jersey and Massachusetts.

Price Savers introduced a company credit card last year, with an outside bank handling the service. The company's profitable operation has resulted in parent Kroger turning on a green light for expansion, with six new units planned this year. Two are set for Phoenix, Ariz., and negotiations are underway for two sites in Ohio and Kentucky.

Buyer's Club last year became one of the few membership warehouses to accept bank cards. The club opened only one store last year despite more auspicious growth plans, and is projecting three new stores this year due to a 50 percent increase in sales.



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K mart Office Supply Venture Extends Specialty Store Focus

(Continued from page 1)

Joe Antonini disclosed in a conference call to security analysts and institutional brokers that Atlanta will be the site of K mart's first 230,000-square-foot hypermarket, to be called American Fair, *DSN* has learned. Opening for the first hypermarket is set for late December, Antonini said.

As with Sports Giant, K mart will operate Office Square through its Builders Square subsidiary to use its systems and reduce overhead. In another similarity with Sports Giant, K mart is tapping Builders Square to staff its office supplies, furniture and office equipment venture.

K mart announced the following assignments: Jack D. Guthrie, executive vp, Builders Square, as Office Square president; Robert E. Sutz to be general merchandising manager; Patrick M. Mattingly, another Builders Square veteran, director of store operations, administration and personnel; and R. Gene Cuthbertson, also from Builders Square, director of advertising and sales promotion.

On the buying staff, Mark Perry will be responsible for office furniture and consumer electronics, while James Reding will buy computer supplies and consumable office supplies. Buyers are beginning to conduct meetings with vendor representatives, *DSN* has learned.

The Office Square stores will be about 25,000 square feet, K mart said.

The sporting goods and office products ventures represent two of three unnamed specialty retailing ventures that Fred Stevens, head of K mart's specialty retailing, disclosed last October as being developed by Builders Square. Speculation about the remaining venture focuses on home decorating centers.

Sports Giant will start with a four-store test, with the first opening in 1988. Most industry insiders expect K mart to also start with a four-store test of Office Square. K mart said the first opening will be in early summer. It said it is considering real estate in major markets across the country.

K mart officials, including Stevens and Guthrie, were unavailable for comment.

Office Square probably won't sell computers, just peripheral supplies, a K mart spokeswoman said.

At retail, the market for office products will total about $100 billion in 1988, projects the National Office Products Association. For office supplies, NOPA projects 1988 shipments of $38.5 billion (wholesale value); furniture, $8.2 billion; machines and microcomputers, $35.1 billion (including $18.2 billion in computer sales).

From 1984 to 1989, NOPA sees a growth rate of 5.9 percent for supplies, 6.9 percent for furniture, and 13.7 percent for machines and computers.

The booming office product warehouse clubs have broken the cartel of a handful of large office products distributors, establishing a two-tier distribution system, said Sid Doolittle, a partner in McMillan Doolittle, a retailing planning consulting firm in Chicago.

Two other office warehouse chains are scheduled to open next month, Doolittle said: Office World in Chicago, and Office Shop Warehouse in Pittsburgh, which will be operated by G.C. Murphy, a subsidiary of Ames Department Stores.

Markups are "very high" from full-service distributors, said Dan Barry, a Kidder Peabody analyst. Catering to small businesses, office supply warehouses cut margins to the low to high 20s, he said.

"It's a great concept, with tremendous growth potential," Barry said. "K mart is getting into the field early."

K mart has set a goal of deriving 18 percent of its sales from specialty retailing and already reached 13.6 percent for 1987. Out of $25.63 billion in reported sales for the fiscal year ended Jan. 27, $3.49 billion was derived from specialty retailing divisions—Builders Square, Waldenbooks and Pay Less Drug Stores.

Total sales for the year rose 6 percent from $23.81 billion the year before. Comparable store sales gained 4.1 percent.

Net income for the year rose 18.9 percent to $692.2 million.

At an April 19 board meeting, K mart will raise its annual dividend 14 percent to $1.32, predicted Walter Loeb, senior retail analyst and a principal of Morgan Stanley.

In a K mart update released in early March, Loeb also predicted that K mart will test the addition of 40,000-square-foot supermarkets "next to existing K mart stores to rejuvenate these mature locations."

Loeb also said that Builders Square turned a $20 million profit in the year just ended, compared to a $10 million loss the year before.

Sears Agrees to Buy Western Auto

(Continued from page 1)

In addition, Sears would assume $152 million in Western Auto debt. Western Auto acquired much of that debt in December 1985, when William Simon, former U.S. treasury secretary, bought it from Beneficial Finance through his Wesray Corporation. Simon took Western Auto public in January 1987.

Western Auto and the Sears auto service centers will continue to operate under their own names, carry their own brands of merchandise and pursue their own growth strategies, Sears said in a release. John T. Lundegard will continue to serve as chief executive of Western Auto and will report to Alfred G. Goldstein, president of Sears Specialty Merchandising.

Sears established its specialty arm early in 1987 to oversee its expansion into specialty retailing.

Its first diversification came last December when it acquired Eye Care Centers of America for $52.4 million. In January, Sears bought the Pinstripes Petite apparel chain for an undisclosed sum.

A Sears spokesman declined to speculate on future specialty plans, either through start-ups or further acquisition.

Unlike K mart, which has set a goal of 18 percent of its sales from specialty retailing, Sears has set no such goals.

In 1987, Sears reported revenues of $48.44 billion and net income of $1.65 billion.

Western Auto operates 278 stores and 116 Tire America and NTW tire specialty centers acquired in 1987. In addition, Western Auto serves as a wholesaler to 1,570 independently-owned, small rural "associate" stores.

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Vol. 27, No. 7 March 28, 1988

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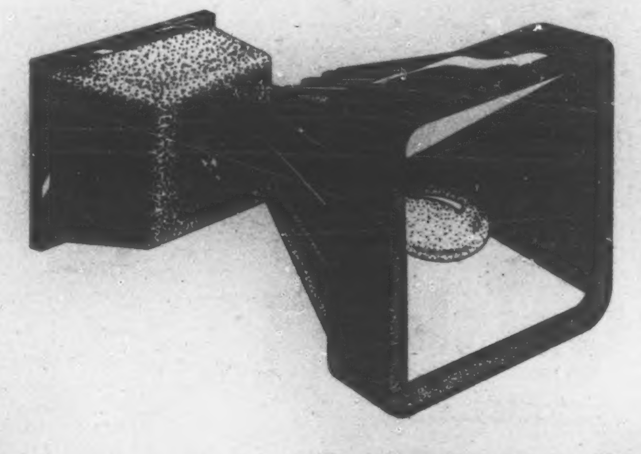

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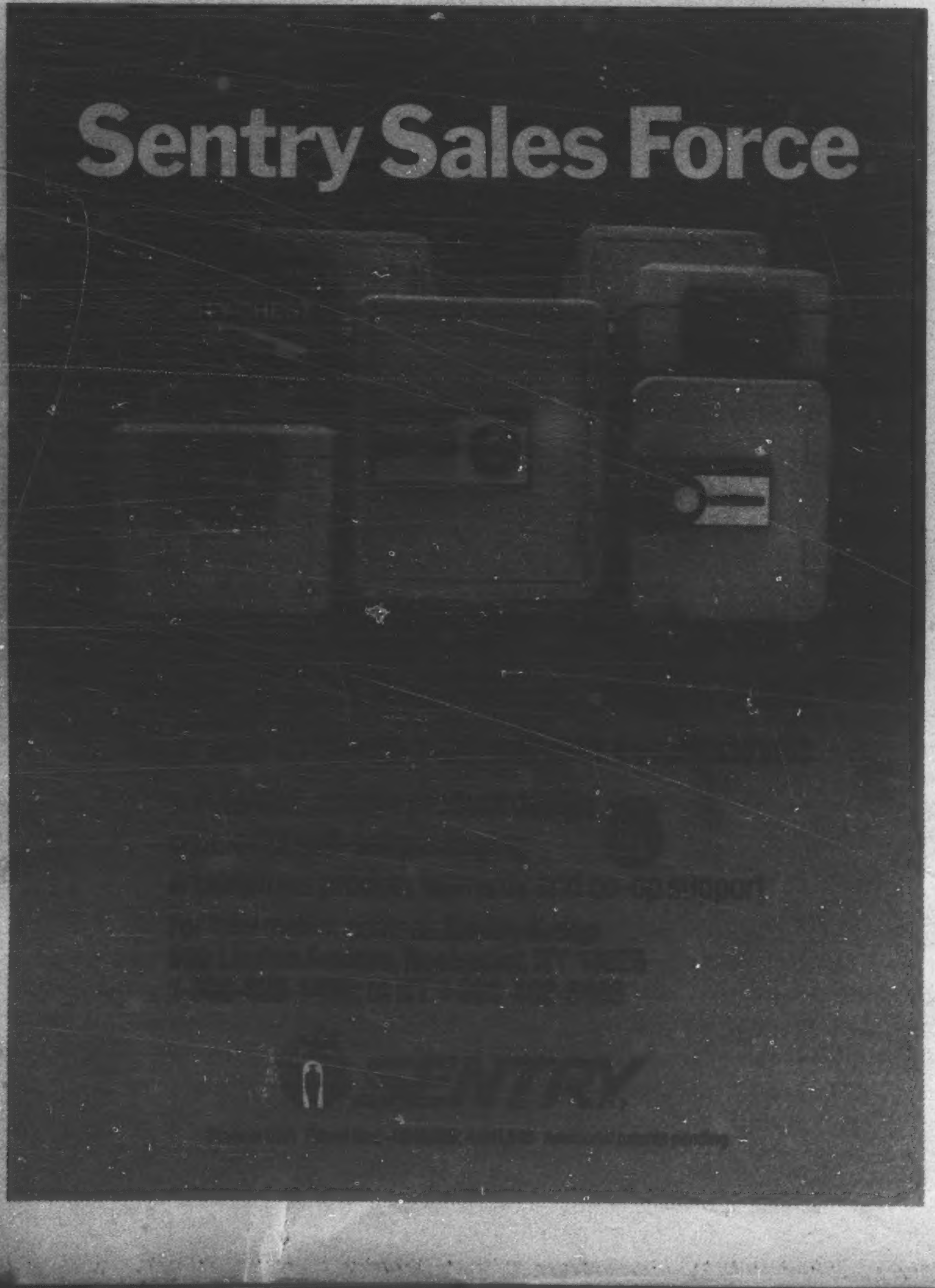

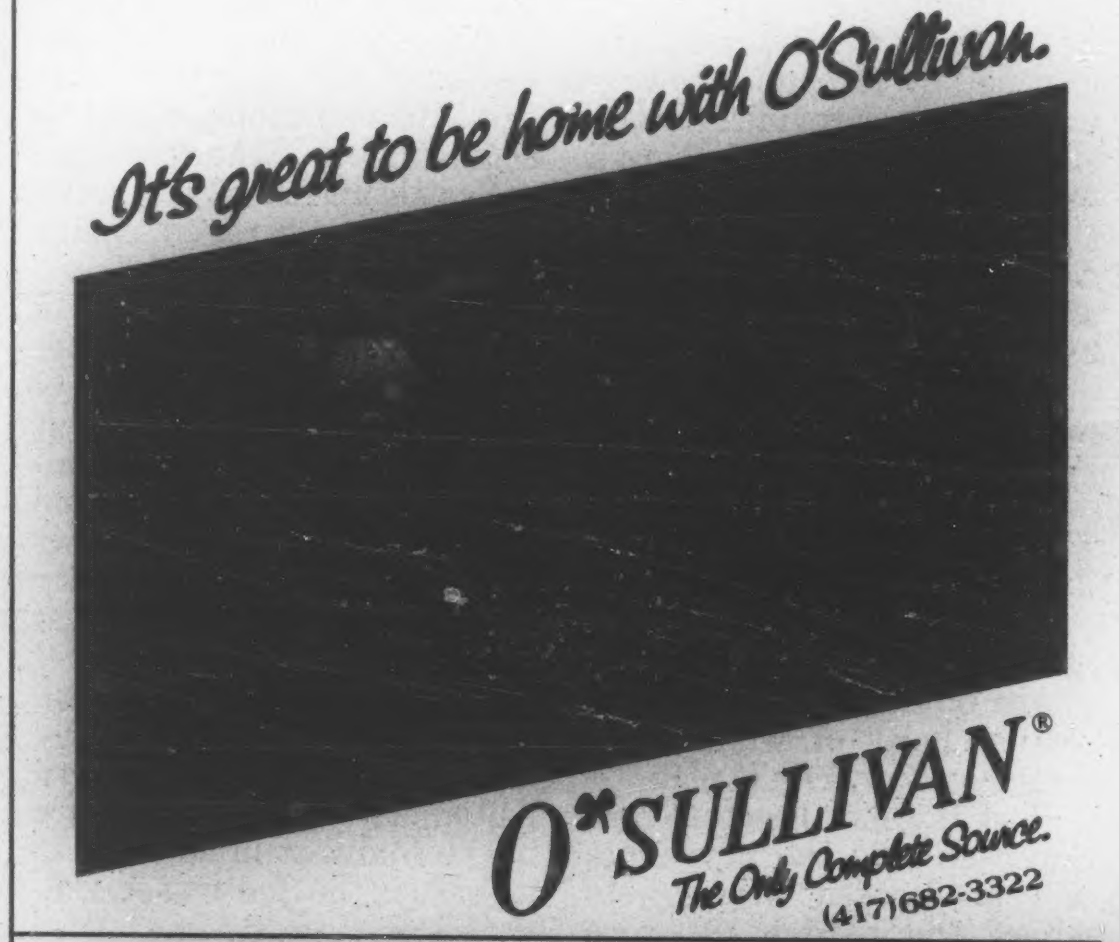
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Features

K mart and Groceries

How and why the nation's largest discount chain markets groceries.

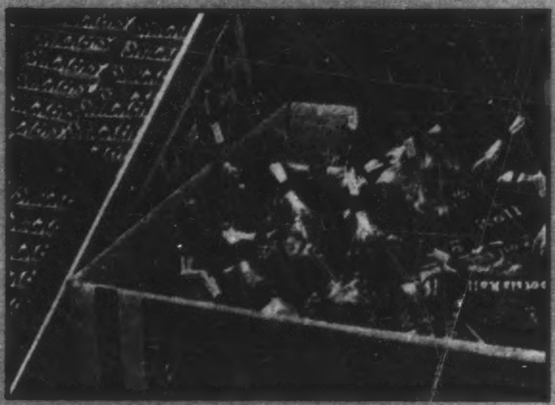
SUPER SUMMER

Special report: First Annual Consumer Grocery Purchase Study

How likely is a supermarket shopper to buy groceries in a drug or discount store. What motivates a sale. And why aren't shoppers making more food purchases in nonfood stores.

Candy: One of the Fastest Growing Categories in Nonfood Stores

Drug and discount chains are courting candy shoppers with massive displays and low advertised prices on popular brands.



Snacks: Nonfood Stores are Expanding Space for Snacks

From popcorn through potato chips, more shoppers today are buying snacks in nonfood stores. The lure: visible merchandising, convenience and low everyday prices.

Departments

Food For Thought

Courting the food shopper: Opportunities for new growth

News Basket

CHEESE
CURLS
PR

Buyers identify food as one of chain drug's fastest growing categories

Sami: Category Seasonality Report

Best selling categories of winter

Best Selling Categories of Winter

The chart below lists the best selling categories in food stores for the months of December, January, and February.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in December 1986, and January and February 1987.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

Foods and Groceries: Best Sellers of Winter

(Average three year index ranking)

December

Foods	Index Ranking
Canned cranberries	391
Novelty candies	322
Baking nuts	267
Dates	261
Canned onions	248
Packaged chocolate covered fruits	242
Piecrust mix	214
Canned potatoes	221
Corn syrup	218
Pie crust mix	215
Brown sugar	205
Stuffing mixes	202
Chocolate creams	201
Solid chocolate pieces	200
Maraschino cherries	198
Dry yeast	191
Canned pie filling	186
Coconut	185
Sterilized milk	183
Baking chocolate	182
Packaged hard candies	180
Croutons	179
Confectioner's sugar	176
Ripe olives	174
Cider	167
Molasses	165
Spanish olives	162
Nonfoods	
Heatable bags & wraps	292
Fireplace logs & bricks	251
Rock salt	176
Disposable containers	170
Coffee makers	153
Rodenticides	144
Flash bulbs	135
Batteries	132
Oven cleaners	126
Aluminum foil	126

January

Foods	Index Ranking
Dates	259
Maraschino cherries	252
Cake decorations	239
Coconut	210
Corn syrup	206
Molasses	202
Baking extracts	199
Cream of tarter	191
Canned meats	191
Confectioner's sugar	181
Baking nuts	180
Cake flour	180
Brown sugar	173
Marshmallows	166
Cocoa	166
Baking extracts	166
Pipe olives	162
Spanish olives	161
Chili sauce	160
Canned onions	158
Cider	157
Canned dry beef	151
Canned sauerkraut	147
Canned cherries	145
Cocktail mixes	145
Canned shrimp	142
Dried apricots	141
Nonfoods	
Fireplace logs & bricks	325
Rock salt	297
Flash bulbs	211
Batteries	153
Heatable bags & wraps	148
Disposable containers	143
Waxed paper	143
Coffee makers	129
Plastic flatware	119
Poly wrap	113

February

Foods	Index Ranking
Packaged nonchocolates	215
Packaged jellies	207
Packaged solid chocolate	201
Tartar sauce	171
Packaged other chocolates	164
Canned salmon	146
Diet desserts	140
Canned pie filling	137
Packaged novelty items	136
Canned cherries	134
Diet canned fruits	131
Dry frosting mix single layer	130
Chocolate covered creams	130
Oriental food	129
Hot cereals	127
Dry frosting mix double layer	126
Bouillon	126
Canned apricots	124
Canned spinach	123
Canned mixed vegetables	123
Dried prunes	122
Dehydrated soups	122
Milk modifiers	121
Canned pears	121
Canned tomatoes	121
Honey	120
Canned soup	120
Nonfoods	
Rock salt	169
Fireplace logs & bricks	114
Facial tissues	114
Bath additives	114
Light bulbs	112
Shoe polish	110

Source: SAMI Seasonality Study

FIRST ANNUAL CONSUMER GROCERY PURCHASE STUDY

Food Shopping in Nonfood Stores is Growing

Grocery shoppers say they are buying more grocery products in nonfood stores today than they were two years ago. Price motivates most sales

A third of all shoppers who buy groceries in discount stores say their purchases have increased in the past two years for the following categories: candy, gum, chips, snacks, non alcoholic beverages, packaged and canned dry groceries, laundry detergents and household supplies, pet foods and accessories and household paper products.

Only consumers who buy beer, wine & other alcoholic beverages in discount stores say their purchases on these items is either decreasing or remaining the same.

Just 8% say their purchases of alcoholic beverages in discount stores have increased in the past two years.

Drug Store Food Purchases

At least three out of every ten shoppers who buy groceries in drug stores say their purchases have increased in the past two years for the following categories: non alcoholic beverages, packaged and canned dry groceries, laundry detergents and household supplies, pet foods and accessories and household paper products.

A fifth of all drug store grocery shoppers also say their purchases have increased for these categories: candy and gum, chips and snacks, and beer, wine and other alcoholic beverages.

One half to two-thirds of all grocery shoppers in drug and discount stores also say that the last time they purchased candy, gum, chips or snacks in these stores, it was done on impulse.

Of the eight food and grocery categories we tracked, candy and gum led as the leading impulse purchase category in discount stores, while chips and snacks generated the most impulse purchases in drug stores.

Purchases in all the other categories were more likely to be planned rather than made on impulse.

There is, however, some indication that discount store purchases are more planned than are grocery purchases in drug stores, particularly for products like alcoholic beverages, packaged and canned dry groceries, and household paper products.

Purchases of pet foods and pet accessories were more often planned in drug stores than in discount stores.

Price Main Motivator

In both drug and discount

Nonfood Grocery Shoppers:
Changes In Frequency of Purchases +
(% of nonfood shoppers who say their purchases by category have increased in the past two years)

Category	Discount	Drug
Candy/Gum	34%	19%
Chips/Snacks	33	23
Nonalcoholic Beverages	32	32
Beer, Wine & Other Alcoholic Beverages	8	20
Packaged/Canned Dry Groceries	33	30
Laundry Detergents/Household Supplies	34	40
Pet Foods/Accessories	38	50
Household Paper Products	34	30

+ Based on interviews with consumers who do buy groceries in drug and discount stores
Source: Lebhar-Friedman Research

Many drug stores today have convenience shoppers use drugstores for grocery purch

stores, special low prices were the key factors in generating an impulse sale. Forty-seven percent of all consumers who made an edible grocery purchase on impulse in discount stores said it was motivated by low prices, and 53% who made such purchases in drug stores gave the same response.

Price was also strongly responsible for the impulse purchases of non-edible grocery items like household cleaners, laundry detergents, and paper products.

In discount stores, 68% of all shoppers who bought non-edible groceries on impulse said they did so because of price, while in drug stores, 60% said price was the reason they made an impulse purchase of a non-edible grocery item.

partments, but just 31% of grocery buying

Non Food Stores: How Their Merchandising of Groceries Compares to Shoppers Purchasing Behavior

	% of stores carrying this category everyday		% of consumers buying this category in nonfood stores	
Category	**Discount**	**Drug**	**Discount**	**Drug**
Candy/gum	100%	93%	31%	24%
Cleaning supplies	95	93	39	15
Pet foods/accessories	95	67	16	4
Paper products like facial/toilet tissues	89	90	38	20
Chips/snacks	84	83	29	16
Nonalcoholic beverages	74	70	28	16
Packaged/canned dry groceries	42	37	29	12
Beer/wine and other alcoholic beverages	32	47	7	5

Source: Lebhar-Friedman Research

% of Nonfood Grocery Purchases Made on Impulse +

	Discount	Drug
Category	**% of Unplanned Grocery Purchases**	
Candy/Gum	67%	57%
Chips/Snacks	55	61
Nonalcoholic Beverages	29	42
Beer, Wine & Other Alcoholic Beverages	31	40
Packaged/Canned Dry Groceries	33	35
Laundry Detergents/Household Supplies	20	30
Pet Foods/Accessories	25	12
Household Paper Products	21	32

+ Based on interviews with consumers who do buy those categories in drug and discount stores
Source: Lebhar-Friedman Research

Factors that Motivate an Impulse Nonfood Edible Grocery Sale +

	Discount	Drug
Motivator	**(% of shoppers who gave this response)**	
Special low price	47%	53%
Were hungry & wanted a snack	34	33
Saw a large display	33	36
Remembered it was needed	33	22
Were thirsty & wanted a drink	9	17
Other reasons	13	19

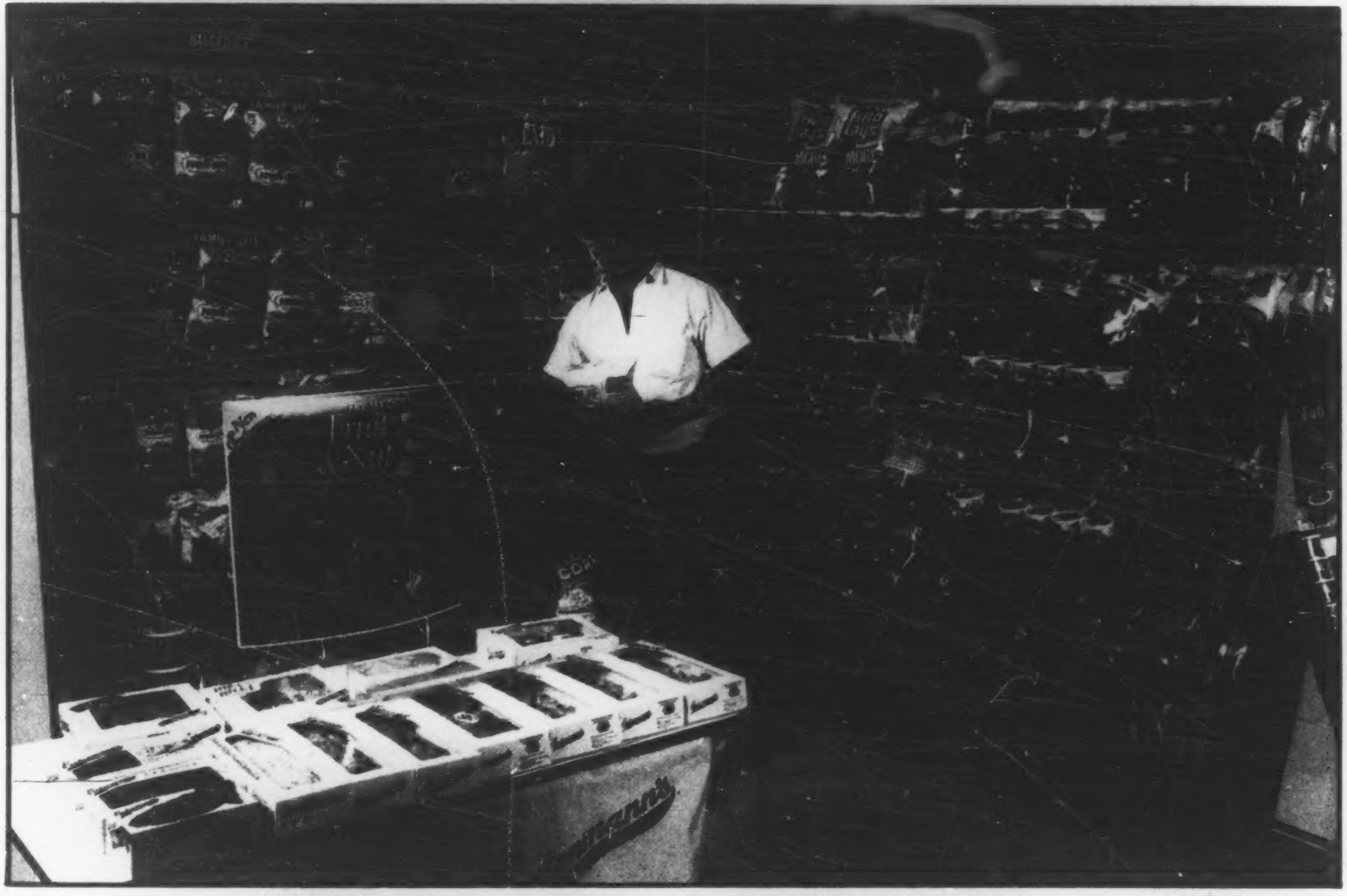
+ Based on interviews with consumers who do buy groceries in drug and discount stores on impulse
Source: Lebhar-Friedman Research

FM

FOOD MERCHANDISING
FOR NON-FOOD RETAILERS

SPRING 1988

First Annual Consumer Purchase Study:



How Effective are Drug & Discount Stores in Attracting the Grocery Shopper

Price & convenience motivates most grocery purchases in both drug and discount stores.

Who Buys Groceries in Non Food Stores

44% of all consumers buy groceries in discount stores and 31% buy them in drug stores.

Most drug and discount store chains that carry grocery products have been enjoying double digit growth in this product segment, particularly with snacks, soft drinks, and household cleaning products.

But, according to Food Merchandising's first annual study of consumer purchasing behavior, the nonfood chains have just scratched the surface of the grocery category's potential for additional growth.

According to our study, which was implemented last summer by Lebhar-Friedman Research, just four out of every ten consumers are now buying grocery products, including snacks, in discount stores, while just three out of every ten consumers are buying snacks and traditional grocery products in drug stores.

The study's findings are based on interviews with males and females who were responsible for at least half of all their household grocery purchases.

Our survey found that there is enormous potential for increasing grocery purchases in nonfood stores.

Frequency of Grocery Shopping is Low

Currently more than half of all grocery shoppers, 56%, are *not* shopping discount stores for food and grocery products, and an even higher portion of the grocery buying public, 69%, or two-thirds of all consumers, are not shopping for groceries in drug stores.

In addition, even though four out of every ten shoppers do buy groceries in discount stores and three out of ten buy them in drug stores, these shoppers are not making grocery purchases as often as they could and should be doing.

And this is primarily because neither drug nor discount stores are doing an adequate job of inspiring food and grocery purchases on a frequent basis.

Among shoppers who buy groceries in discount stores, just one in ten (25%) say they make grocery purchases in their local discount stores at least once a week or more.

And drug stores, which are more convenient to most shoppers than discount stores, do an even worse job with their shoppers. Just (19%) of all grocery buying drug store shoppers say they make a grocery purchase in their local drug stores at least once a week.

Lack of Consistency A Problem

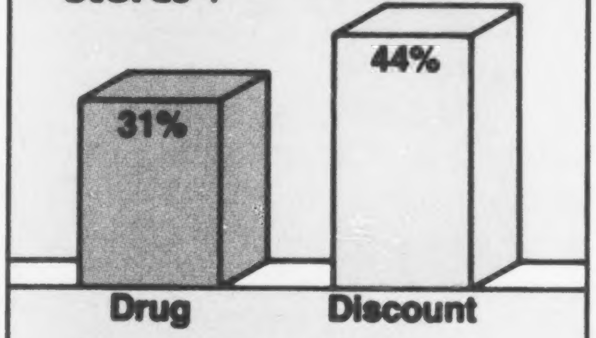
From interviews with consumers and buyers of grocery products for nonfood chains, *Fm* has indications that part of the problem is inconsistent merchandising of the grocery category.

Many consumers say they cannot depend on finding grocery products in drug and discount stores on any "consistent" basis. "There's no way I can make a planned food purchase in a drug or a discount store," said one woman shopping a New Jersey K mart, "unless I'm buying candy or a snack."

Most consumers say they make planned purchases only of "advertised" items, nuts, candies and crackers at Christmas, household cleaners and detergents at January and Dollar Day specials, and packaged commodity items like juices and cake mixes or facial tissues at varying seasonal periods.

Based on our research and follow up interviews with consumers and grocery product buyers for nonfood chains, it's apparent that drug and discount stores could increase the frequency of their grocery sales as well as broaden their universe of grocery shoppers by doing the following:

% of Consumers Buying Groceries In Nonfood Stores +



+ Based on interviews with shoppers responsible for at least half of all household grocery purchases
Source: Lebhar Friedman Research

Strategies For Maximizing Foods

- Maintain a consistent year-round grocery department
- Give the department visibility by putting it adjacent to high traffic aisles
- Advertise specials that would appeal to the main grocery household shopper
- Display the specially advertised items on end caps and floor displays adjacent to the grocery department
- Keep the pet department, the beverage department, the household cleaning department and the paper products department as close to the edible grocery department and the candy/snack departments as possible.
- Keep prices in all the grocery departments below the everyday retails in competitive food stores.
- Take advantage of the grocery manufacturers' growing interest in the nonfood trade to develop programs advantageous to year-round marketing of groceries.
- Tailor a grocery department to commodity and seasonal items that turn fast, generate incremental sales and encourage repeat customer visits.

How Often Consumers Shop Nonfood Stores for Groceries†

Frequency of shopping	Discount	Drug
Once a week or more	11%	6%
2-3 times a month	8	4
Once a month	16	8
Once every 2-3 months	4	6
Less often than once every 2-3 months	5	7
Never	56	69

†Based on interviews with shoppers responsible for at least half of all household grocery purchases
Source: Lebhar Friedman Research

Regional shopping patterns

Fm's first annual consumer grocery purchasing survey also found that there are regional differences in the way consumers shop for groceries.

Consumers living in the south are the most likely to purchase groceries in discount stores (56% do) while consumers living in the northeast are the least likely to buy groceries in discount stores (just 27% do).

Consumers who live in the west are the most likely to buy groceries in drug stores (37% do). But in the midwest, just 26% of all shopped say they buy groceries in drug stores.

Both drug and discount stores also sell more groceries to more affluent customers, to the households with incomes of $25,000 and above. Shopping at non food stores for grocery items is significantly less likely, the study found, among consumers with incomes of less than $25,000.

How Often Drug & Discount Store Consumers Shop Nonfood Stores for Groceries†

Frequency of shopping	Discount	Drug
Once a week or more	25%	19%
2-3 times a month	18	13
Once a month	37	26
Once every 2-3 months	9	19
Less often than once every 2-3 months	11	23

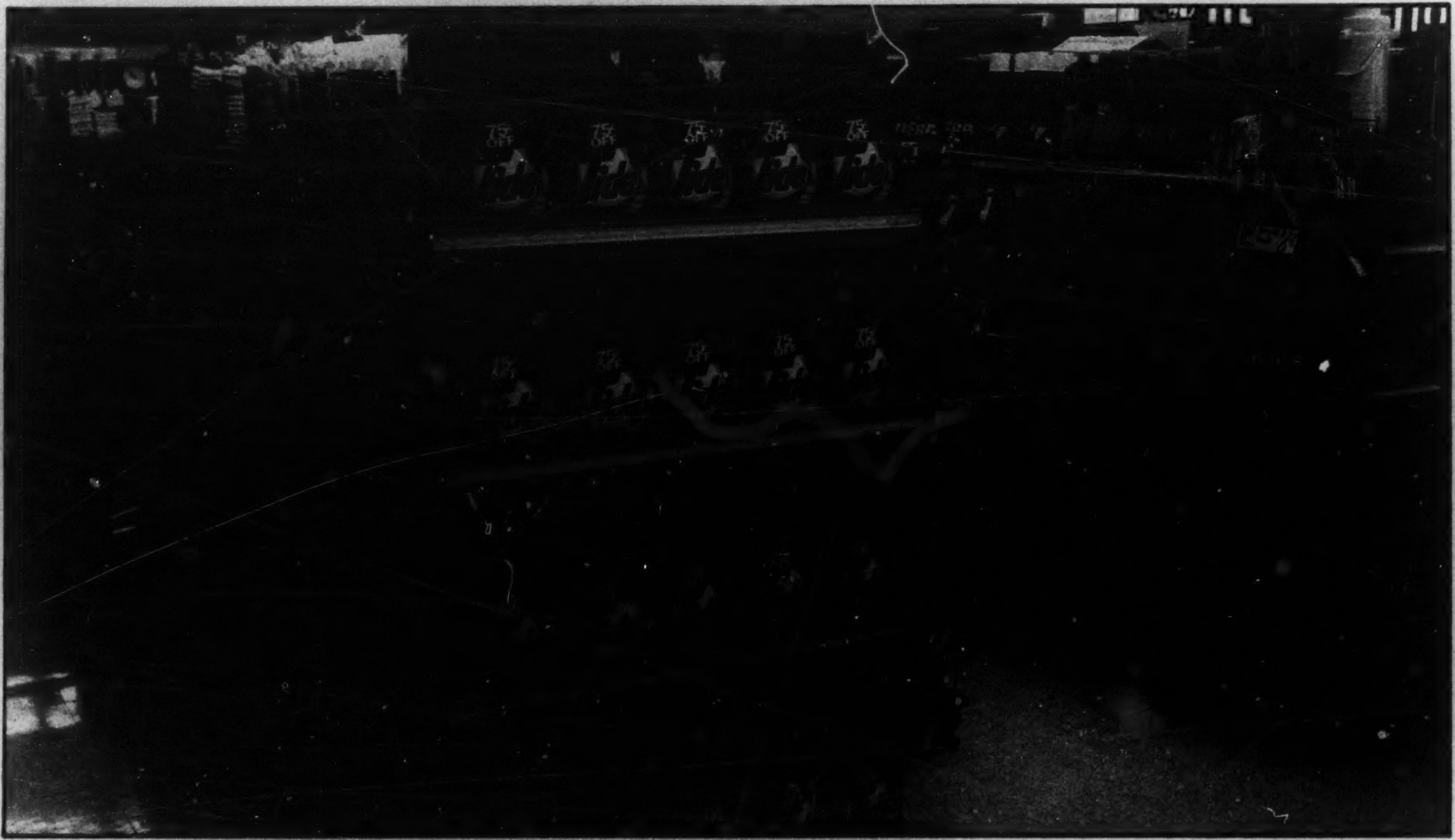
†Based on interviews with consumers who do buy groceries in drug and discount stores
Source: Lebhar Friedman Research

Affluent Shoppers Buy More Groceries In NonFood Stores†

(% of shoppers who buy groceries in nonfood stores)

Income levels	Discount	Drug
Under $25,000	36%	15%
$25,000 to $44,999	66	47
$45,000 or more	35	46

†Based on interviews with shoppers responsible for at least half of all household grocery purchases
Source: Lebhar Friedman Research



Discount store shoppers who purchase groceries are very likely to throw laundry detergent in their shopping cart.

The Groceries Consumers Buy in Nonfood Stores

Laundry detergents & household supplies are the grocery products most often bought in discount stores.

Candy/gum and household paper products are the groceries most often bought in drug stores.

In general, discount stores get more grocery category purchases from their shoppers than drug stores do.

Eighty-eight percent of the shoppers who bought grocery products in discount stores purchased items like laundry detergents and household supplies.

In contrast, according to our survey, just 48% of all shoppers who bought groceries in drug stores used their stores as sources of supply for laundry detergents and household cleaning items.

Briefly, here is a summary of how grocery purchase activity differs in drug stores vs. discount stores:

Groceries: What Shoppers Buy In Nonfood stores +
(% of nonfood grocery shoppers making these purchases)

Category	Discount	Drug
Laundry Detergents/Household Supplies	88%	48%
Household Paper Products	87	64
Candy/Gum	70	76
Chips & Snacks	67	50
Packaged/Canned Dry Groceries	67	37
Non-alcoholic Beverages	64	50
Pet Foods & Accessories	37	13
Beer, Wine & Other Alcoholic Beverages	15	16

+ Based on interviews with shoppers who do buy groceries in drug and discount stores
Source: Lebhar-Friedman Research

Report Card On Grocery Purchases: Discount Stores

- 88% of all shoppers who buy groceries in discount stores buy laundry detergents and household cleaning supplies;
- 87% of all shoppers who buy groceries in discount stores buy household paper products;
- 70% of all shoppers who buy groceries in discount stores buy candy and gum;
- 67% of all shoppers who buy gro-

ceries in discount stores buy chips, snacks and packaged or canned dry groceries;

- 64% of all shoppers who buy groceries in discount stores buy nonalcoholic beverages;
- 37% of all shoppers who buy groceries in discount stores buy pet foods and accessories;
- 15% of all shoppers who buy groceries in discount stores buy beer, wine or other alcoholic beverages.

Report Card on Drug Store Grocery Purchases

- 76% of all shoppers who buy groceries in drug stores buy candy and gum;
- 64% of all shoppers who buy groceries in drug stores buy household paper products;
- 50% of all shoppers who buy groceries in drug stores buy chips, snacks and nonalcoholic beverages;
- 48% of all shoppers who buy groceries in drug stores buy laundry detergents and household cleaning supplies;
- 37% of all shoppers who buy groceries in drug stores buy packaged and canned dry groceries;
- 16% of all shoppers who buy groceries in drug stores buy beer, wine and other alcoholic beverages; and
- 13% of all shoppers who buy groceries in drug stores buy pet foods and pet accessories.

So, as you can see, with the exception of two categories, candy/gum and alcoholic beverages, discount stores generate more grocery category purchases than drug stores.

Discount stores also get more overall grocery purchases.

As we noted in our main story, some 44% of all consumers buy edible and nonedible grocery purchases in discount stores, while just 31% of all consumers buy these same grocery products in drug stores.

Frequency of category purchases

Very few of the shoppers we surveyed, however, bought products in these eight categories very frequently in nonfood stores.

Why Shoppers "Don't" Buy Groceries In Non Food Stores

Those consumers who do *not* shop at discount stores for foods/groceries say it is primarily because such shopping is "inconvenient" for them.

Four out of ten simply say their local discount store is "too far away" or "not in their neighborhood" so they don't think of buying groceries there.

Another 13% say they simply "prefer to do all of their grocery shopping in one place."

One in five shoppers said that they simply prefer to shop for groceries in supermarkets, while about one in ten say their local discount stores just didn't carry grocery items.

The reasons shoppers gave for not buying grocery products in drug stores also centered on convenience, but to a lesser extent.

Just 9% said that drug stores were "too far away" to make grocery purchases, or that they preferred "to shop in one place."

Just 14% said they didn't buy grocery products in drug stores because their local drug stores didn't carry such products, and only one in ten (9%) said it was because they preferred to purchase food items in supermarkets.

According to our survey, just one out of every ten shoppers aren't buying groceries in drug and discount stores because their prices are "too high."

Surprisingly enough, most shoppers didn't mind that drug and discount stores can only offer a limited selection of grocery items.

Just 4% of all the shoppers in our survey said "limited selections" was one of the reasons they didn't shop for groceries in drug and discount stores.

According to our survey, fewer than one third of those who purchase items in each category do so "once a week or more." However, shoppers tend to buy groceries more frequently in discount stores than in drug stores.

About a third (31%) of the shoppers in our survey said they bought pet foods and accessories once a week or more often in discount stores while just 25% said they made such purchases once a week or more in drug stores.

Thirty percent of the shoppers who bought nonalcoholic beverages in discount stores said they did so at least once a week or more, while 26% of those who bought their beverages in drug stores said they did so at least once a week or more.

Why Shoppers "Do" Buy Groceries In Nonfood Stores

Those consumers who *do* shop for goods & groceries in non food stores say they shop these stores for three main reasons: price, convenience and product selection.

Most consumers who shop for groceries in discount stores said their purchases were generated by "low prices" (63%) and "advertised specials" (56%).

Consumers who bought food and grocery items at drug stores said they did so primarily because their local stores had "convenient locations" (55%) and "good advertised specials" (48%).

Discount store shoppers also said that maintaining products in stock and offering the best selection and variety were reasons they shopped for groceries in their local stores.

Drug store grocery shoppers, however, were less likely to report that having product in stock or offering a good selection were reasons for buying groceries in drugstores.

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Ames Profits Climb After Loss Prevention Effort

Peter Hollis

By Peter Hisey

ROCKY HILL, Conn. — A year-long battle with inventory shrinkage may have ended for Ames Department Stores with the discovery of significant accounting errors in several vendor-serviced departments. The result: Ames' shrink rate has returned to near industry norm and 1987 profits rose sharply over the previous year.

According to Peter Hollis, president and chief executive officer of the chain of 342 discount and 147 variety stores, inventory shrink fell to 1.6 percent of sales at cost, significantly below the projected level of 2.0 percent reported last year. Last July, the figure was 2.4 percent and at year-end 1986 topped 2.7 percent.

Hollis noted that he was particularly gratified by the chain's performance in the face of an extensive, time-consuming analysis of virtually all of Ames' operating procedures. "It isn't easy to do both [run a business and conduct

(Continued on page 4)

Office Products Megastores Creating New Specialty Niche

By Laura Liebeck
Nationwide DSN Report

Deep discount and warehouse-style office products stores could total 600 units by 1995 and garner a large chunk of the office supply industry's total annual sales, sources estimate.

The exact size and scope of this new breed of store is difficult to quantify as it is growing almost daily. Sources estimate discount office products stores will tally between $300 million and $400 million in sales this year, a fraction of the more than $100 billion office supply business.

Precise industry data on this burgeoning new entity may be revealed this fall when the National Office Products Association, Alexandria, Va., releases its study of the office products industry.

The growth of deep discount office products stores is being fueled by numerous factors: increasing demand for home office/stationery products; small and me-

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Discount Office Products Chains

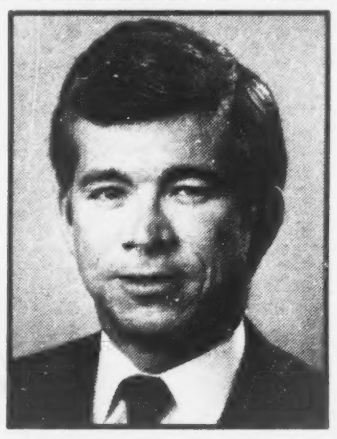
Company	When Opened	No. of Units
Staples, Newton, Mass.	May 1986	11
Office Depot, Boca Raton, Fla.	Nov. 1986	11
Office Station, Carol Stream, Ill.	Jan. 1987	2
Office Club, Concord, Calif.	Jan. 1987	5
WORKplace, St. Petersburg, Fla.	3rd Qtr. 1987	2
Office America, Richmond, Va.	Aug. 1987	2
Office Shop Warehouse, McKeesport, Pa.	March 1988	1
OfficeMax, Cleveland, Ohio	April 1988	2
Office World, Great Neck, N.Y.	April 1988	1
Bizmart, Arlington, Texas	May 1988	1
Office Square, San Antonio, Texas	*	*

**date of first opening not yet announced*

Source: DSN research, published reports

Best Products Names New President, Probes Direct Mail and New Formats

Robert E.R. Huntley



William F. Costello

By Arthur Markowitz

NEW YORK — Here are Best Products' latest moves in what its top executive described as a continuing "evolution from a cataloger into a more contemporary retailer in all aspects of our business":

- William F. Costello, who has been heavily involved in the chain's rehabilitation and diversification as executive vice president and chief financial officer, was elected president and chief operating officer.

That post had been vacant since February 1987, when Robert E.R. Huntley, then president and coo, was promoted to chairman and chief executive officer to lead Best's retailing evolution.

- The direct mail field will be probed as a new growth market with the distribution this fall of a 20-to-24-page jewelry specialty catalog featuring goods from Best's annual book. The mailing will go to 300,000 to 500,000 customers, people culled from Best's own mail order list of

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Hills Exec Honored by Peers

IMRA Spotlights Retail Ad Strategies

DALLAS — Wes McDonough, vice president, advertising and marketing for Hills Department Stores, Canton, Mass., was honored as Retailer Advertiser of the Year at the 16th Annual Advertising Conference, sponsored by the International Mass Retail Association here March 23 to 25.

McDonough, chairman of IMRA's advertising executives council steering committee, was recognized by a vote of more than 50 discounter ad execs in attendance. In his introductory remarks, McDonough observed "we in marketing have to be more informed, more sophisticated, more astute" than ever before.

Sessions included a presentation on newspapers' efforts to improve relations with retail advertisers; a description of new satellite technology that enables advertisers to deliver camera-ready ad copy instantly and simultaneously to 114 newspapers in 31 states; a talk by K mart-sponsored marketing professor J. Patrick Kelly of Wayne State University on how stores can be an ad medium, suggesting space on walls can be sold to deliver vendors' messages; and analyses of baby boomers.

Maxwell Communications, St. Paul, Minn., a large offset and gravure printer, was honored as ad vendor of the year.

CD Sells U.S. Cataloger To Asian Marketing Firm

EDISON, N.J. — Consumers Distributing (U.S.) has a new foreign owner.

President Stanley Seiden said the change could help the showroom chain continue to reposition its operations from a catalog-oriented business into a store-driven retailer, but wouldn't have a major impact on its merchandising.

Provigo, the former owner, a diversified Canadian food distributor, sold the 85-store U.S. East Coast cataloger to a Far East electronics vendor and trading firm as part of its revamping of its CD (Canada) division, the parent of CD (U.S.).

International Semi-Tech Microelectronics, a Toronto company, acquired CD (U.S.) through a wholly-owned Hong Kong subsidiary, Semi-Tech Microelectronics (Far East), for about $100 million.

The purchase of CD (U.S.) is expected to be completed at the end of May, when an audit of the cataloger that will help determine the final price is completed.

International Semi-Tech, a $15.3 million company listed on the Toronto Stock Exchange, was founded seven years ago as a computer hardware research and development firm. The company's income had recently come from licensing manufacturing and marketing rights, but last year it said in its annual report that it had begun to set up a marketing and distribution network for its Far East-sourced goods in North America and Europe to provide a firmer revenue base.

(Continued on page 63)

Consumers Distributing (U.S.)
Edison, N.J.

No. of Stores: 87
Average Store Size: 10,000 square feet
1987 Sales: $280 million
Percent Change from 1986: – 14.5 percent

Source: Provigo Inc.

For Discounters, It's Show & Tell at MAGIC

Distributors Rank 1987 Top Selling Products

MARKETWATCH

Neiman-Marcus Opens Discount Outlet

DALLAS — The tony Neiman-Marcus, perhaps the last conventional department store to enter the discount field, is set to open a discount outlet, called Last Call, in Austin, Texas, this month. The store was created to clear out merchandise left over after clearance sales. The first 30,000-square-foot Last Call store, which is also the name of the 22-unit retailer's January and July sales, will sell apparel, shoes, accessories and home furnishings at least 65 percent below original retail price. According to published reports, the merchandise typically will be about a year old. The company said it will operate the Austin store on a trial basis for at least six months. Another Last Call store is slated to open in Wayne, N.J. No other stores are currently planned. Nordstrom, another of the nation's most exclusive specialty apparel stores, announced late last year that it planned to expand its Nordstrom Rack discount outlet stores into a number of new markets this year, including Washington D.C.

Hills Reports Year-End Sales of $1.51B

CANTON, Mass. — Hills Department Stores reported sales of $1.51 billion during the 52-week period ended Jan. 30—representing a 12.7 percent increase over 1986's 53-week fiscal year. Same store sales for the comparable 52-week periods rose 4.9 percent. Operating profit for the year climbed 9.7 percent to $103.5 million. Net income for the year, including an extraordinary credit for utilization of tax loss carry-forwards, was $22.6 million, compared to a loss of $30.9 million in 1986, which included a nonrecurring inventory charge of $41.3 million. Fourth quarter sales rose 11.5 percent to $507.7 million, while quarterly operating profit gained 7.5 percent to $57.1 million. Hills operates 152 discount stores, including 15 new stores opened during 1987. The opening of the company's first Massachusetts store—in Pittsfield (Albany, N.Y., market)—has been delayed by environmental concerns about the mall in which it is located.

Price Club 2nd Qtr. Earnings Up 26.6%

SAN DIEGO — Price Club reported net earnings rose 26.6 percent to $21.1 million on sales of $842.6 million for the second quarter ended March 13. For the quarter, chainwide sales increased 24.2 percent, while comparable warehouse club sales climbed 2.92 percent. In the first six months of Price Club's fiscal year, net income totaled $52 million compared to $39.5 million for the same period last year. Sales were $2.13 billion compared to $1.71 billion in the previous period. The 38-unit chain opened a new warehouse club in White Marsh, Md., last month, and it will open three membership clubs this summer—in Glendale, Ariz.; Corona, Calif.; and Hampton, Va.—and a unit in Babylon, N.Y., is scheduled to open in the fall.

Pic 'N' Save Institutes Shark Repellent

CARSON, Calif. — Closeout specialist Pic 'N' Save Corp. has adopted a shareholder rights plan designed to ensure fair treatment in the event of a takeover. The 125-store company said it has not received notice of a takeover attempt. President and chief executive officer Lewis Merrifield III said the measure would not prevent a takeover, but would encourage negotiations with the board in the event of an acquisition attempt.

Nichols Denies Takeover Attempt Rumors

NEW YORK — Manfred Brecker, chairman of S.E. Nichols, scotched speculation that his 44-store regional chain is a takeover target. Instead, any talk about outside investment stems from the chain's attempts to restructure its financing to provide more capital for growth and cut interest rates on long-term debt (from the 15 percent range), Brecker said. Potential lenders are insisting on an equity kicker, such as warrants or preferred stock as a condition to lending, Brecker said. A $1.75, one-day spurt in its stock, when it was trading in the $5 range, prompted Nichols to issue a release saying outside investors were interested. But no buyout is in the works, Brecker said, and Nichols has yet to settle on a refinancing plan.

Telaction Adds More Chicago Subscribers

SCHAUMBURG, Ill. — Telaction has signed a three-year agreement with Jones Intercable that provides for the cable company to carry the interactive TV shopping service on its system serving 35,600 subscribers in the Chicago suburbs of Grayslake, Libertyville, Orland Park, Mundelein, Naperville, Park Forrest and Wauconda.

FOR THE RECORD

Vance Publishing is the sponsor of the National Home Center Show. A story on the show in *DSN's* March 14 issue incorrectly identified the trade show organizer.

PACE Founder Haimsohn Resigns; Company Plans Continued Growth

AURORA, Colo. — Henry Haimsohn, founder, president, chief executive officer and chairman of PACE Membership Warehouse based here, has resigned from all his positions with the company.

Reasons for Haimsohn's departure were not disclosed by the 33-unit warehouse club chain. PACE reported that executive vice president of finance Wayne Patterson has been elected chairman, while executive vp of sales management Charles Steinbrueck has been named president.

Both will share the ceo's responsibilities, said Archie Litt, vp and general counsel.

Litt said the company does not anticipate any major changes with the departure of Haimsohn, since "Patterson and Steinbrueck have been effectively running the company for some time now on a day-to-day basis."

Henry Haimsohn

Steinbrueck added: "We will continue to grow the company in the manner we established in 1987."

Steinbrueck referred to the first profitable year in PACE's history. After its beginning in 1983, PACE remained in the red, but recent year-end results for fiscal 1987 showed a $7.67 million profit compared to a $1.15 million loss in the previous year.

Although the company had begun a turnaround, retail analyst Kurt Barnard speculated that this reversal was not significant enough to erase past problems and PACE might not be able to sustain the momentum. He said it is possible Haimsohn was under pressure from shareholders and board members to leave the company.

Another analyst, however, said Haimsohn, an entrepreneurial type manager, became less involved once the chain was up and running and ultimately chose to leave PACE of his own volition.

Haimsohn—who holds less than 5 percent of PACE's outstanding stock, according to Litt—was unavailable for comment. PACE said the founder would act as a consultant, and his father, Herbert Haimsohn, is remaining on the board.

Venture, Caldor Sales Rise 9.7%

ST. LOUIS — Combined 1987 sales for Venture and Caldor rose 9.7 percent to $2.71 billion.

Same store sales for the chains gained 4.6 percent for the year ended Jan. 30, 1988, reported parent May Department Stores Company.

Operating earnings for the two chains fell to $126 million, a decrease of 16 percent.

May declined to report separately Caldor's sales and operating earnings, which it acquired in October 1986.

For the fourth quarter, May's discount division sales rose 8.7 percent to $891 million from $820 million in the year-earlier period. Same store sales for the quarter gained 4.1 percent.

For the entire company, sales gained 8.6 percent to $10.31 billion. Net earnings rose to $444 million, against $381 million a year ago.

During 1988, May intends to open seven discount stores.

NRMA Outlook: Stronger 2nd Half

NEW YORK — In its first economic outlook, the National Retail Merchants Association predicted sales at general merchandise and apparel specialty stores will strengthen in the second half of the year.

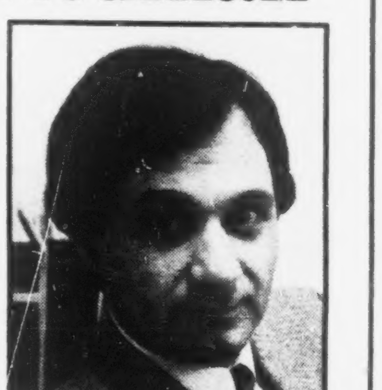
"Dollar sales will be equal to last year's gains of 6 percent, but lower inflation will result in increased volume growth," stated the "Retail and Consumer Outlook" report prepared by Rosalind Wells, newly-appointed chief economist for NRMA. Wells was previously manager of corporate economics at J.C. Penney.

The optimistic report also predicted that sales of women's apparel, which were hurt last year by price increases and a confused fashion direction, will increase slightly in 1988. The report forecast the volume of merchandise sold to increase by 2.75 percent.

In addition, the NRMA outlook reported that year-to-year sales comparisons should strengthen in the second half—increasing from 4.5 percent to 7 percent.

These predictions were based on key indicators including a continuing expansion of the economy; moderate rise in consumer spending; strong increases in business investment; an improving trade balance; strong employment gains; and a continuing decrease in unemployment.

DSN Publisher Named VP of Lebhar-Friedman



NEW YORK — Fred Filer, publisher of *Discount Store News*, has been appointed a vice president of Lebhar-Friedman Inc., announced J. Roger Friedman, president of *DSN's* parent firm. "This major promotion is in recognition of the outstanding job Fred has done since he rejoined Lebhar-Friedman nine years ago," said Friedman.

In 1981, Filer became national sales manager of *DSN* and in 1982 he was promoted to publisher. Recently, he was named chairman of the operating committee of Lebhar-Friedman. Lebhar-Friedman publishes a number of retail trade publications, including *Chain Store Age Executive*, *National Home Center News* and *Drug Store News*.

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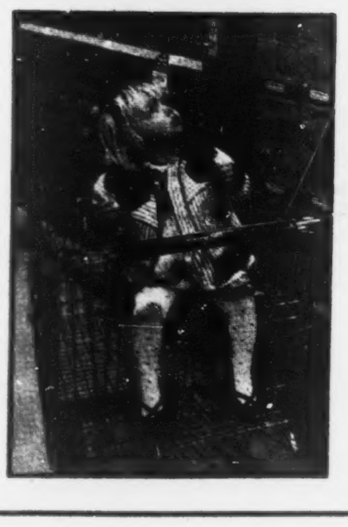

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The Future: 'You Ain't Seen Nothin' Yet'

ARTHUR MARKOWITZ

That trite expression, "You ain't seen nothin' yet," aptly describes the booming retail technology area.

During the past decade retailers, in growing numbers, sought out the latest technology that would help them cut operating expenses and thereby boost their bottom line.

The result is that everyone in retailing by now knows about and uses electronic point-of-sale terminals and scanning devices. These technologies has become so ubiquitous that a number of security analysts have listed companies supplying electronic registers and bar code readers among their recommended investments.

The technology focus now is shifting—to innovative uses for current equipment and to more exotic devices.

Satellite communication networks are one example of how current technology is being put to novel uses. K mart, Wal-Mart, J.C. Penney, Sears and Federated Department Stores are already communicating to their stores through satellite systems. These innovative retailers employ their networks to, among the many uses, obtain sales information, download VCR training tapes, broadcast live merchandise presentations to store buyers and enable executives to talk to all employees at the same time.

Scanning opens up a new marketing world to retailers and manufacturers because it provides instant sales information. Any retailer that scans can easily test new items by simply monitoring the real-time sales of these products in a few stores before making a major chainwide inventory commitment. Supermarketer Safeway, however, is a step ahead. It has turned its scanning ability into a new business, Safeway Marketing Research Services, that test markets new merchandise and evaluates promotional techniques for manufacturers.

Laptop computers are becoming lighter and easier to use. It's not hard to visualize buyers taking these devices to trade shows, making deals with manufacturers and, on the spot, sending the information back to headquarters where it's processed into specific store orders as well as an EDI order to the manufacturer.

CD-ROM chips are one example of the exotic technology that is likely to make an impact on retailing within a few years. The price of CD-ROM chips is continuing to fall and the day isn't too far off when they will become inexpensive enough to be viewed as an electronic catalog. When that happens, retailers will be able to record planograms and other merchandise presentations on CD-ROM chips and send the chips to their stores. There, employees, as needed, can read the diagrams and see still color photos of the displays before setting up the latest planogram.

Artificial intelligence may seem quixotic as far as retailers are concerned. After all, this exotic technology has failed to live up to expectations in other businesses. But there are some big name retailers that are quietly, and in a very low keyed fashion, probing AI. Software programming companies working on retailing AI systems forecast usable technology within the next few years.

What about other exotic retailing technology ideas? Obviously, there are much more technical concepts awaiting retailers' use. The only limit would seem to be imagination—and retailing has always attracted talented and visionary individuals.

Study: Discount Stores Draw 64% of Shopper Population

Nationwide DSN Report

Discounters are in the enviable position of having one of the largest frequent shopper populations of all U.S. retail outlets. Nonetheless, discounters could further exploit that shopper loyalty by upgrading apparel and consumer electronics departments, a Management Horizons study indicated.

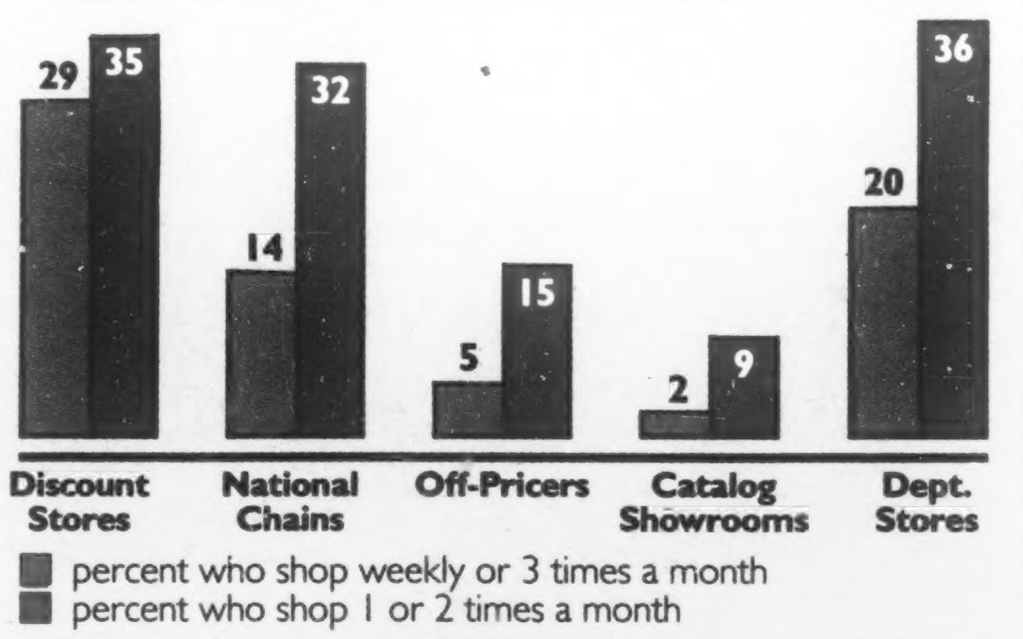
Department stores, national chains and specialty stores are drawing discount store customers to their high margin apparel and electronics merchandise.

Management Horizons' "Consumers' Characteristics and Shopping Behaviors report," conducted last May and released to the press early this year, categorized heavy, moderate and light shoppers for each of 11 retail outlets, explored shopper demographics, and examined cross-shopping habits among various store formats. Respondents were also asked to describe the factors that were most important to them when shopping for merchandise such as consumer electronics and apparel.

(Continued on page 11)

Discount Customers Shop More Often

Percentage of respondents who shop frequently by type of store.



Source: 'Consumers' Characteristics and Shopping Behaviors: Eleven Kinds of Stores,' Management Horizons, Dublin, Ohio, division of Price Waterhouse

Loss Prevention Effort Yields Profits at Ames

(Continued from page 1)

a full audit] simultaneously," he said. "However, when you finish, you have a full set of reliable systems and procedures; you start clean."

The company reported significantly higher earnings, partly as a result of its crash loss prevention program. Earnings rose 25 percent to $34.16 million, or 91 cents per share, compared to last year's $27.13 million, or 73 cents per share. Sales rose 11.8 percent to $2.11 billion from $1.89 billion. Same store store sales rose 9.7 percent.

Ames, which has historically experienced shrink levels at or below the industry average of 1.2 percent to 1.4 percent, surprised investors last spring when it reported a then unexplained shortage of nearly $20 million, discovered in its year-end inventory in January 1987. At the time, founder and chairman Herbert Gilman promised to spare no efforts to determine the cause of the losses. During the annual shareholders meeting last June, speculation about those causes included a theft ring or massive collusive activity among employees.

According to a report just issued by security consultants Jack L. Hayes International, called in by Ames last September, the actual root of the shrinkage was more prosaic. "A significant portion of the shrinkage can be traced to vendor-serviced areas," Hayes said. Sales in these areas were recorded at suggested list prices, not the prices actually charged by Ames. In effect, each sale from the affected departments (like H&BA and jewelry) resulted in a small amount of shrink.

Hayes discovered the connection after conducting thousands of audit tests, following a paper trail of invoices and receipts for hundreds of different products through the entire distribution process. "We found absolutely no evidence of massive theft or collusive activity," Hayes said.

The auditors then turned their attention to certain problem departments, which had experienced significant shrinkage. It quickly became obvious that they shared one quality—vendor service.

Once that connection was established, buyers and merchandise managers in each category were interviewed. "Within a day or so, buyers had letters in hand from vendors assuring us that list prices would be removed from the invoices," Hayes said.

Ames had suspected billing errors as a primary culprit within a few weeks of the inception of its own internal investigation. According to Hayes, the company's MIS and loss prevention departments had already plugged several holes in its inventory control systems.

"The company relied on manual intervention, and in a period of rapid growth, mistakes slipped through," Hayes said. Essentially, a system that had worked adequately sprung leaks when Ames more than doubled its size with the 1986 acquisition of the G.C. Murphy chain.

Hayes said the "unprecedented team effort" is responsible for the sharp drop in shrinkage. "This is normally a two- or three-year process," he said, adding that Ames has shown substantial improvement in less than a year.

"We still have a lot of work," said Hollis, referring to a continuing effort to tighten procedures as well as implementing new merchandising concepts, like Office Shop Warehouse, a stationery superstore, and competitive adjustments, like a new prototype due this fall.

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Study Shows Discounters Draw 64% of Shopper Population

(Continued from page 4)

The heavy discount shopper—someone who visited the store at least once per month—constituted 64 percent of the survey sample, making it the second largest heavy shopper population of all retail outlets studied by the group, including: national chains, department stores, discounters, off-pricers, local specialty stores, catalog showrooms, home centers, drug stores, convenience stores and warehouse grocery stores. Drug stores were the only stores with a larger heavy shopper base.

Overall, the heavy discount shopper is a carbon copy of the Wal-Mart target customer: lower to middle income, blue collar, primarily from young families in small markets.

Catalogers have one of the youngest heavy shopper populations among the retail outlets examined. Of the 31 percent who were heavy shoppers, 40 percent are under 34 years old. While catalog shoppers tend to be youthful, they are also affluent. Twenty percent earn $50,000 per year or more. But, as is typical of nearly all affluent shoppers surveyed, the more money they have to spend, the less loyal they are to any individual retail outlet.

> ***In most product categories, low-income individuals were heavy shoppers of stores that advertise low prices, but when it came to purchases of personal clothing and consumer electronics products, loyal discount shoppers often went elsewhere.***

Half of the catalog showroom shoppers surveyed visit the store only once per year or less often, due in part to the non-consumable nature of its merchandise.

In most product categories, low-income individuals were heavy shoppers of stores that advertise low prices, but when it came to purchases of personal clothing and CE products, loyal discount shoppers often went elsewhere.

While there is a willingness to buy some casual clothing at discount stores, the less restrictive the budget, the more quickly the consumer turned to other stores.

Low-income, heavy discount shoppers claim that price is the most important element when they are choosing personal clothing, but frequently cross-shop with department and specialty stores when buying clothing for themselves.

The heavy shopper acknowledged she buys dress clothing at discount stores 16 percent of the time, at generally higher-priced department stores 30 percent of the time, and at national chains 28 percent of the time. So while she will shop at the discount store for housewares 54 percent of the time and small appliances 38 percent of the time, she often goes elsewhere for her apparel needs.

The moderate discount user, with somewhat more cash at her disposal, will quickly abandon the discount store and head for the department stores and national chains; 20 percent go to national chains and nearly 40 percent go to department stores for women's dress clothing.

When shopping for casual clothing, the shift in loyalty among both heavy and moderate users is more subtle.

The discount apparel shopper claims she is not looking for "high-fashion merchandise" which was considered to be "not very important" among all discount shoppers, but evidently finds something missing from the price/quality equation in the discounter's apparel merchandise mix.

Overall, all apparel shoppers, regardless of retail outlet, considered ease of finding the merchandise they are looking for, friendly sales people, and good return policies to be the most important elements of their personal clothing shopping experience.

Price and ease of finding merchandise take a backseat, however, to good guarantees/warranties and knowledgeable sales help in the consumer electronics department. Even the most budget-conscious, heavy discount shopper ranked price the third most important factor when shopping for electronics, while moderate and light users ranked price fifth.

In consumer electronics, on a four-point scale where one is very important and four is not important at all, staff product knowledge was ranked 1.3 by all users.

As was the case of discount apparel shoppers leaving discounters for department stores and national chains as income levels rose, discount shoppers increasingly turn to specialty stores for electronics with rising affluence.

Heavy discount users shopped specialty stores 38 percent of the time for consumer electronics and 18 percent of the time at discount stores. Moderate discount users shopped specialty stores 43 percent of the time and discounters 9 percent of the time for electronic goods.

All catalog showroom users, regardless of income levels or shopping patterns, preferred to shop any other store for consumer electronics, including discount stores. Part of the reason for what would appear to be a lack of shopper loyalty, could be due in part to the relatively few number of showrooms when compared to the number of discount stores, national chains and department stores that saturate the country.

When heavy catalog showroom users were asked where they most often buy selected goods, fine jewelry and sporting goods were the two merchandise categories where catalogers were mentioned more often than discounters and national chains.

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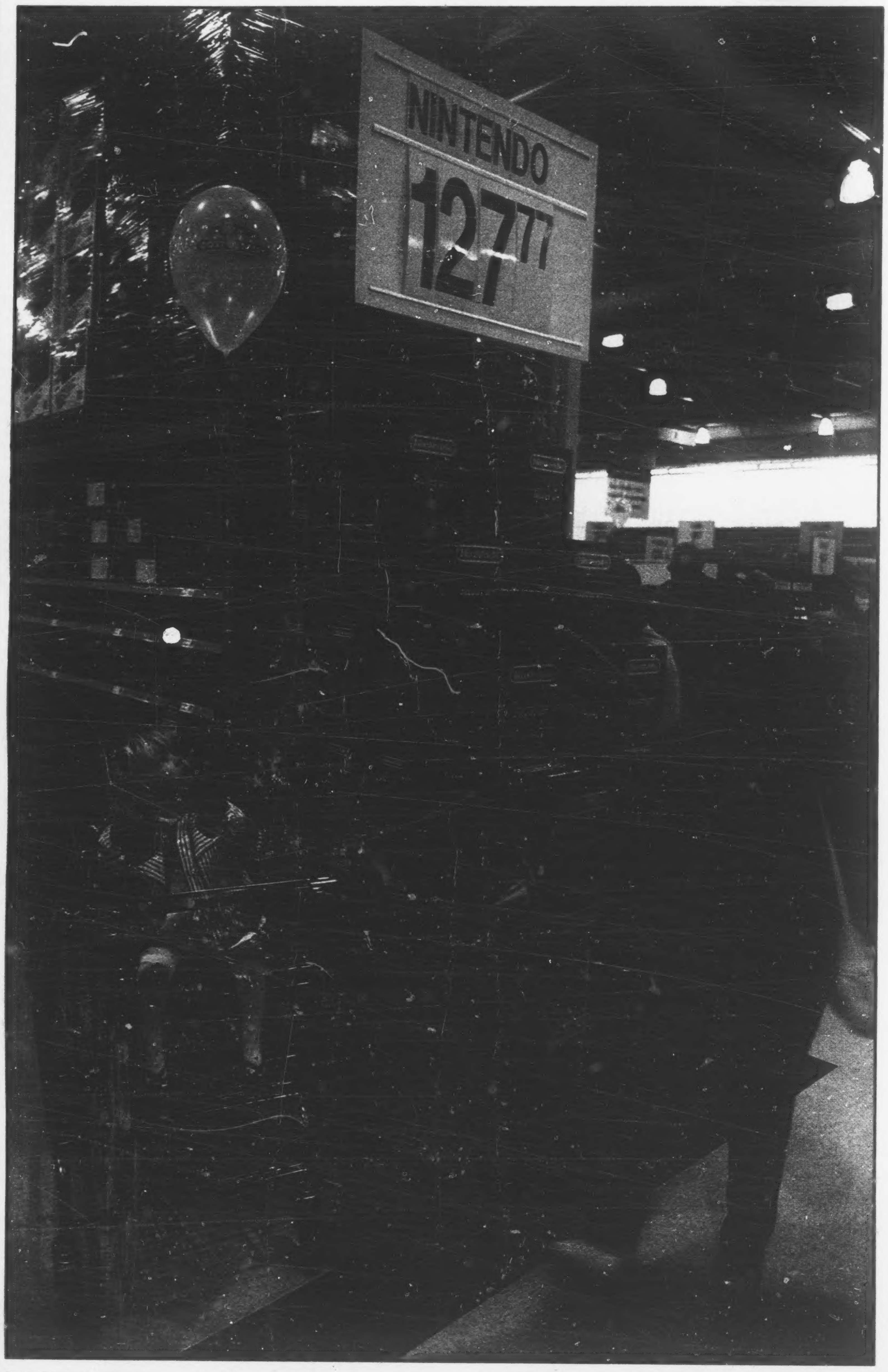
DSN PMA PRODUCT MOVEMENT AUDIT



Distributors Rank 1987 Top Selling Products, Trends

By Mary Ellen Kelly
Nationwide DSN Report

What do Nintendo video games, Pictionary board games and Marlin rifles have in common?

These discount store products were the three top selling items in the toys, sporting goods, stationery, and health and beauty aids departments during 1987.

DSN's 14th annual Product Movement Audit asked leading distributors of toys, sporting goods, stationery, health and beauty aids, and ethnic health and beauty aids merchandise to rank their volume leaders during the 1987 calendar year, and asked them which products they expect to top the charts during 1988.

Some highlights from the distributors' view:

- The stationery industry is enjoying strong sales of higher ticket merchandise due to two factors: the continued development of the home office segment—which accounted for nearly 30 percent of sales volume during 1987—and the steady infusion of fashion colors.
- In contrast to trade-up trends in stationery, toy shoppers told the industry through their purchases that games priced at $100 or above were—with very few exceptions—no longer going to fit within their budgetary constraints.

It appears that 1988 sales could be flat unless current best sellers by vendors like Coleco and Fisher-Price, at or near the $40 price, maintain present high sales levels.

- The decline in indoor games was to some extent replaced by outdoor games. Sporting good departments, which had been in the doldrums since the fall-off of exercise equipment during the early '80s, experienced a turnaround in 1987.
- Discounters will need to be even sharper on prices in the health and beauty aids department if they are to effectively contend with the assault of deep discount drug stores in major metropolitan areas.

Competitive changes among vying H&BA manufacturers will drive prices down in several product segments such as feminine hygiene. Sales volume in the eye care segment continued to escalate during 1987 and will rise steadily this year, due to the rising population of contact lens wearers.

The 8 percent growth rate experienced in ethnic health and beauty aids in 1987 and the projected 8 percent to 10 percent sales increase in 1988 will come from no-lye relaxers and grooming formulas such as gels, sheens and holding sprays, created for straight ethnic hair fashions.

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Top Selling Products at Discounters

Product	Total Unit Sales	Average Retail	Total Dollar Sales
Toys			
Nintendo Control Deck	40,000	$ 79.99	$3,199,600
Games Gang Pictionary	110,000	22.99	2,528,900
Hasbro G.I. Joe Figures	304,000	2.99	908,960
Health & Beauty Aids			
Listerine Antiseptic, 32-oz.	225,300	3.79	853,887
Bausch & Lomb Sensitive Eye Saline, 12-oz.	310,032	2.39	740,976
Tampax Super Tampons, 40-ct.	136,807	3.69	504,818
Stationery			
Esselte Hanging File Folder System 18559	22,373	9.87	220,822
Sentry Fire Safe No. 1100	8,758	23.69	207,477
Filler Paper Wide 200-Count 10200	278,625	0.69	192,251

Product	Total Unit Sales	Average Retail	Total Dollar Sales
Sporting Goods			
Marlin Rifle with Scope, #605	17,500	$ 79.99	$1,399,825
Ruger 22 Caliber Rifle, 10/22	9,000	119.99	1,079,910
Remington 870 Express Shotgun	5,200	179.99	935,948
Ethnic Health & Beauty Aids			
Worlds of Curls Gel, regular, 6-oz.	333,933	3.32	1,108,658
Lustrasilk Right On Curl Liquid, normal	337,817	3.19	1,077,636
Worlds of Curls Gel, extra dry, 6-oz.	252,843	3.32	839,439

Nintendo bumped Teddy Ruxpin as the top toy and Esselte hanging file folders usurped Mead filler paper as the top stationery mover. Leading distributors across the country told DSN *that these were some of the changes that took place among the sales volume leaders between 1986 and 1987. Projections on which items will be this year's top performers are included in the articles that follow.*

Source: Leading distributors

Health and Beauty Aids Expected to Post 7% Sales Gains in '88

By Charles Bowlus
Executive VP, Sales
Boston Distributors

Health and beauty aid sales are expected to show a 5 percent to 7 percent growth in 1988, led by eye care, deodorant, incontinence, mouthwash and sanitary protection segments. Full-line discounters' share of business slipped 0.2 percent in 1987 due to inroads made by deep discounters which now represent almost 5 percent of the $28 billion H&BA market.

Sales at Boston Distributors grew 22 percent in 1987, with the eye care category leading the growth with a 32 percent gain over 1986 numbers. Salines, with 38 percent of category sales, enjoyed a 35 percent gain due to a dramatic reduction in retail pricing on the liquids and the continued surge of aerosols.

Bausch & Lomb's Sensitive Eyes Saline led the saline segment and the overall category due to the company's price reduction strategy. Aerosols leaped to almost one-third of all saline sales because of the success of Allergan's Lens Plus brand which jumped to our No. 12 spot on our product movement audit.

Sales at Boston Distributors grew 22 percent in 1987, with the eye care category leading the growth with a 32 percent gain over 1986 numbers.

The greatest shift in the eye care category is taking place in the disinfection segment. Chemicals have gained over 55 percent of the business. Hydrogen peroxide systems, which represent 70 percent of the chemical business, continue to gain in popularity with Ciba's A-O Sept, the dominant formula. Bausch & Lomb's Reun brand will cut into the chemical segment next year with a mild formula that does not irritate or sting eyes.

In 1988, we will see continued dramatic growth in eye care due to the significant number of new users in the market (over 3 million are expected). We are recommending that retailers devote 8 feet to the category and that eye care items be represented in every advertisement. In-store promotion of salines, both liquids and aerosols, are also suggested on an ongoing basis, as deep-cut deals ensure strong sales and profitability.

The biggest opportunity for retailers is to avoid the out-of-stocks which most stores are experiencing by giving enough space to the major players. Adequate space can be made by limiting the exposure given to takeoffs, and by the deletion of the regular formulation of salines and daily cleaners.

$ Rank	Item	Unit Movement	Average $ Retail	Total $ Movement
	EYE CARE			
1	Bausch & Lomb Sensitive Eyes Saline 12-oz	310,032	2.39	740,976
2	Soflens Cleaning Tablets 24-ct	40,565	6.97	282,738
3	A O Sept 8-oz	51,128	5.29	270,467
4	Allergan Cleaning & Disinfect Sol 8-oz	31,559	5.99	189,038
5	Bausch & Lomb Sensitive Cleaner 1-oz	43,856	4.28	187,704
6	Soflens Cleaning Tablets 12-ct	29,672	5.49	162,899
7	Pliagel Cleaning Solution 25 ml	36,934	4.19	154,753
8	Soflens Cleaning Tablets 48-ct	11,691	12.97	151,632
9	Bausch & Lomb Disinfect Solution 12-oz	28,371	5.29	150,083
10	Boston Conditioning Solution 4-oz	26,601	5.49	140,719
11	Bausch & Lomb Saline Solution 12-oz	64,036	2.39	140,239
12	Lens Plus Saline Solution 8-oz	31,825	4.28	136,211
13	Bausch & Lomb Daily Cleaner 1.5-oz	31,803	4.28	136,117
14	Lensept Disinfecting Solution 8-oz	26,606	4.79	127,443
15	Bausch & Lomb Sens Eyes Saline 8-oz	45,163	1.89	85,358
	INCONTINENCE PRODUCTS			
1	Depend Extra Absorbent 30-ct	8,843	17.97	158,909
2	Depend Regular Absorbent 36-ct	5,297	17.97	95,187
3	Depend Reg Absorbent Undergarment 12-ct	10,095	6.87	69,353
4	Depend Extra Absorbent 10-ct	4,893	6.87	33,615
5	Attends Undergarment Super 10-ct	1,920	6.87	13,190
6	Attends Briefs Medium 10-ct	1,410	7.97	11,238
7	Depend Briefs Regular 24-ct	590	16.97	10,012
8	Attends Undergarment Regular 10-ct	1,626	5.97	9,707
9	Surety Extra Absorbent Undergarment 10-ct	1,596	5.47	8,730
10	Depend Shields Extra Absorbent 12-ct	1,251	5.67	7,093
11	Surety Extra Large Underpad 20-ct	1,086	6.47	7,026
12	Depend Briefs Large 18-ct	374	16.97	6,347
13	Attends Briefs Small 10-ct	914	6.47	5,914
14	Serenity Super 10-ct	984	5.97	5,874
15	Serenity Super 30-ct	316	16.97	5,363
	FEMININE HYGIENE			
1	Tampax Super 40-ct	136,807	3.69	504,818
2	Stayfree Maxipad Super 30-ct	97,271	4.29	417,293
3	Tampax Regular 40-ct	110,758	3.69	408,697
4	Tampax Super Plus 40-ct	87,612	3.69	323,288
5	Tampax Slender Regular 40-ct	75,740	3.69	279,481
6	Always Night Maxi 26-ct	42,628	4.29	182,874
7	Carefree Panty Shield Regular 26-ct	76,687	2.19	167,945
8	Always Plus Thin Super Maxi 26-ct	38,525	4.29	165,272
9	Always Plus Maxi 26-ct	38,525	4.29	165,272
10	Playtex Deodorant Tampon Regular 28-ct	37,829	4.29	162,286
11	Always Thin Maxi Pads 30-ct	36,964	4.29	158,576
12	Always Maxi Pads 30-ct	36,538	4.29	156,748
13	Sure & Natural Maxi Shields 30-ct	36,102	4.29	154,878
14	Playtex Deodorant Tampon Super 28-ct	33,435	4.29	143,436
15	Always Deodorant Maxi Pad 30-ct	32,956	4.29	141,381
	MOUTHWASHES			
1	Listerine Antiseptic 32-oz	225,300	3.79	853,887
2	Scope 24-oz	98,000	3.29	322,420
3	Scope 40-oz	58,500	4.89	286,065
4	Listerine Antiseptic 18-oz	60,789	2.99	181,759
5	Listerine Antiseptic 24-oz	51,312	3.39	173,948
6	Scope 32-oz	39,223	4.39	172,189
7	Scope Peppermint 24-oz	51,891	3.29	170,721
8	Plax Antiseptic Plaque Dental Rinse 16-oz	47,566	2.99	142,222
9	Scope Peppermint 40-oz	23,498	4.89	114,905
10	Listerine Antiseptic 6-oz	57,551	1.89	108,771
11	Scope Family 18-oz	35,180	2.99	105,188
12	Listerine Antiseptic 23-oz	38,710	2.49	96,388
13	Scope Peppermint 32-oz	21,529	4.39	94,512
14	Scope Peppermint 18-oz	30,003	2.99	89,709
15	Listermint 32-oz	19,476	3.99	77,709

$ Rank	Item	Unit Movement	Average $ Retail	Total $ Movement
	TOOTHPASTES			
1	Crest Tartar Control Toothpaste 6.4-oz	201,069	1.89	380,020
2	Aqua Fresh Toothpaste 6.4-oz	175,300	1.89	331,317
3	Crest Tartar Control Gel 6.4-oz	166,612	1.89	314,897
4	Crest Regular Toothpaste 6.4-oz	161,160	1.89	304,592
5	Crest Mint Toothpaste 6.4-oz	118,642	1.89	224,233
6	Crest Toothpaste Gel 6.4-oz	100,155	1.89	189,293
7	Colgate Dental Cream Family 7-oz	123,100	1.89	187,112
8	Colgate Tartar Regular 6.4-oz	82,618	1.89	156,148
9	Colgate Gel Toothpaste 6.4-oz	72,067	1.89	136,206
10	Crest Tartar Gel Pump 4.6-oz	74,436	1.79	133,240
11	Colgate Tartar Gel 6.4-oz	69,543	1.89	131,436
12	Crest Pump Tartar 4.6-oz	71,052	1.79	127,183
13	Crest Tartar Pump Gel 6.4-oz	50,623	2.49	126,051
14	Crest Toothpaste Pump Tartar 6.4-oz	47,133	2.49	117,361
15	Crest Tartar Control Toothpaste 4.6-oz	72,043	1.49	107,344
	MOUSSE/HAIR FIXATIVES			
1	Clairol Extra Control Mousse 6-oz	48,398	1.69	81,793
2	Aqua Net Styling Gel 8-oz	59,127	1.29	76,274
3	White Rain Mousse Extra Body 5-oz	50,685	1.49	75,521
4	Suave Extra Control Mousse 5-oz	42,961	1.69	72,604
5	Alberto Mousse Extra Control 5.5-oz	18,764	3.49	65,486
6	Alberto Sculpting Spray 8-oz	17,177	3.49	59,948
7	Aqua Net Mousse 5-oz	45,874	1.29	59,177
8	Dep Styling Gel Super w/P 8-oz	22,169	2.49	55,20[illegible]
9	Dippity-Do Extra Hold 8-oz	18,576	2.89	53,685
10	Perma Soft Mousse Extra Control 5.5-oz	18,247	2.89	52,734
11	White Rain Mousse Regular 5-oz	33,685	1.49	50,191
12	Clairol Mousse Normal 6-oz	26,661	1.69	45,057
13	Vidal Sassoon Mouse Full Body 8-oz	12,522	3.59	44,954
14	Jheri Redding Design Spritz Spray 8-oz	17,571	2.49	43,752
15	Suave Mousse Soft Control 5-oz	24,961	1.69	42,184
	SHAMPOOS			
1	Head & Shoulders Norm/Oily Lotion 15-oz	118,467	3.99	472,683
2	Pert Plus Normal 15-oz	76,931	3.69	283,875
3	White Rain Extra Body 18-oz	132,638	1.49	197,631
4	Head & Shoulders Norm/Dry Lotion 15-oz	45,172	3.99	180,236
5	White Rain Regular 18-oz	109,070	1.49	162,514
6	Head & Shoulders Norm/Oily Lotion 11-oz	45,362	3.49	158,313
7	Pert Plus Extra Body 15-oz	39,834	3.69	146,987
8	Pert Plus Oily 15-oz	37,909	3.69	139,884
9	Pert Plus Dry 15-oz	33,609	3.69	124,017
10	Perma Soft Dry 16-oz	31,483	3.89	122,469
11	Perma Soft Regular 16-oz	31,054	3.89	120,800
12	Prell Normal/Oily Liquid 16-oz	32,261	3.69	119,043
13	Head & Shoulders Norm/Dry Lotion 11-oz	34,109	3.49	119,040
14	Prell Normal/Dry Liquid 16-oz	30,867	3.69	113,899
15	White Rain Conditioning Shampoo 18-oz	74,917	1.49	111,626
	BLADES & RAZORS			
1	Atra Cartridge 10-ct	89,762	4.89	438,936
2	Gillette Trac II Cartridge 10-ct	45,754	4.89	223,737
3	Atra Cartridge 5-ct	78,543	2.69	211,281
4	Atra Plus 5-ct	70,741	2.69	190,293
5	Good News Razor 5-ct	88,312	1.59	140,416
6	Gillette Trac II Cartridge 5-ct	46,714	2.69	125,661
7	Good News Razor 10-ct	48,120	2.59	124,631
8	Atra Plus Cartridge 10-ct	23,023	4.89	112,582
9	Gillette Super Double Edge 10-ct	27,656	3.99	110,347
10	Schick Platinum Injector 60 7-ct	31,276	3.49	109,153
11	Good News Pivot Razor 10-ct	39,244	2.59	101,642
12	Schick II Twin Cartridge 9-ct	20,189	4.89	98,724
13	Personal Touch Refill Cartridge 4-ct	37,486	2.59	97,089
14	Good News Plus 5-ct	58,678	1.59	93,298
15	Bic Shaver Regular 10-ct	67,410	1.29	86,959

Source: Boston Distributors, Maple Heights, Ohio, for January through December 1987. The company supplies 1,400 stores, including 1,000 discount stores, in the Northeast. Average retail prices reflect typical price points for mass merchandisers.

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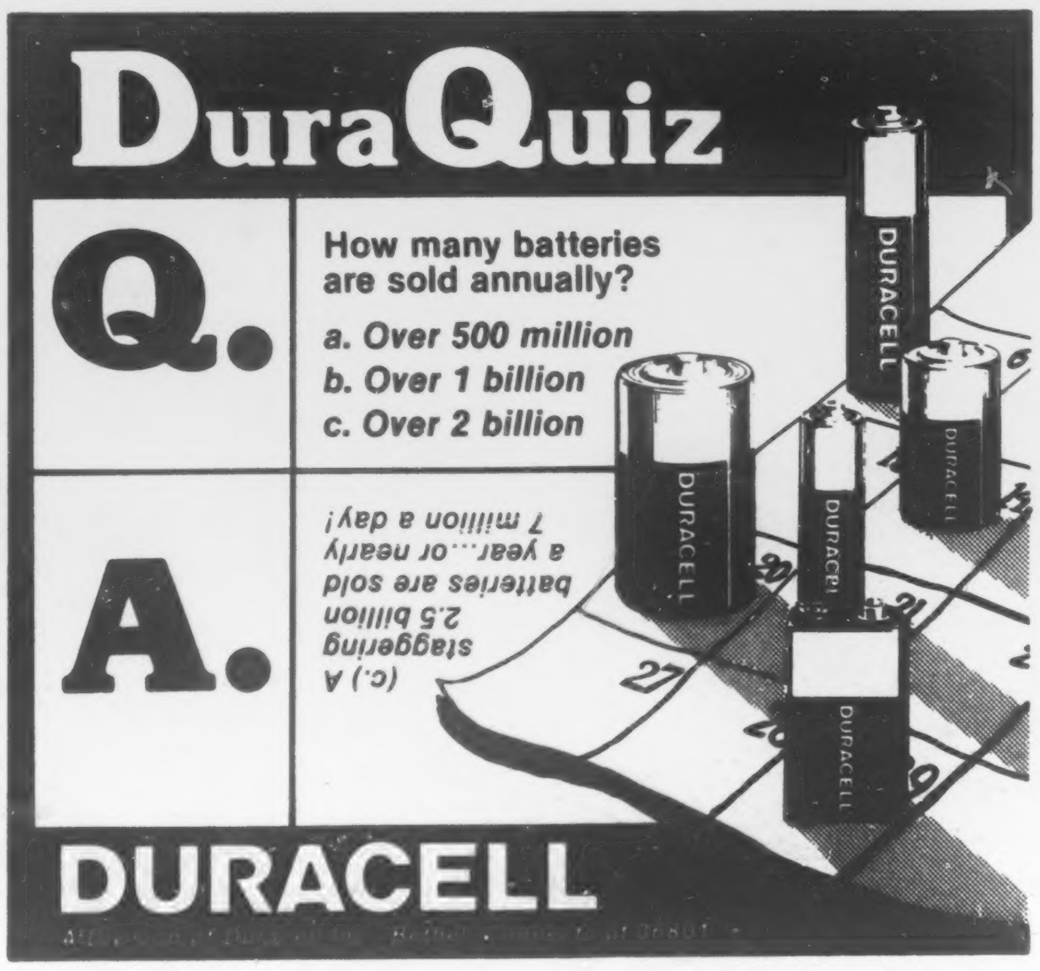

DuraQuiz

Q. How many batteries are sold annually?
a. Over 500 million
b. Over 1 billion
c. Over 2 billion

A. (c.) A staggering 2.5 billion batteries are sold a year…or nearly 7 million a day!

DURACELL

Health and Beauty Aids Expected to Post 7% Sales Gains in '88

$ Rank	Item	Unit Movement	Average $ Retail	Total $ Movement
	COLD PRODUCTS			
1	Alka Seltzer Plus 36-ct	52,058	4.19	218,123
2	Nyquil Nighttime Medicine 10-oz	31,845	5.97	190,115
3	Alka Seltzer Plus 20-ct	65,404	2.89	189,018
4	Sudafed Tablets, 30 mg, 24-ct	59,182	2.89	171,036
5	Nyquil Nighttime Medicine 6-oz	46,124	3.69	170,198
6	Dimetapp Extentabs 12-ct	43,419	3.59	155,874
7	Dimetapp Elixir 4-oz	31,511	3.79	119,427
8	Hall's Mentholyptus Bag 30-ct	98,002	1.19	116,622
9	Comtrex Cold Tablets 24-ct	29,597	3.89	115,132
10	Actifed Decongestant Tablets 24-ct	28,400	3.99	113,316
11	Coricidin D Tablets 24-ct	28,124	3.89	109,402
12	Drixoral 12 Hour SA Tablets 10-ct	27,379	3.88	106,230
13	Afrin Spray 15 cc	26,838	3.79	101,716
14	Contac Caplets 10-ct	28,587	3.49	99,769
15	Dristan Tablets 24-ct	25,115	3.89	97,697
	HAIR SPRAYS			
1	Aqua Net Extra Hold Super 9-oz	204,420	1.19	243,260
2	All Set Gold Extra 20-oz	143,544	1.69	242,539
3	Aqua Net Super 9-oz	203,586	1.19	242,267
4	Aqua Net Regular 9-oz	177,544	1.19	211,277
5	Aqua Net Unscented 9-oz	162,124	1.19	192,928
6	Aqua Net Super Unscented 9-oz	157,348	1.19	187,244
7	White Rain Extra Hold 7.5-oz	117,207	1.49	174,368
8	White Rain Unscented Extra Hold 7.5-oz	91,073	1.49	135,699
9	All Set Blue Firm 20-oz	75,269	2.69	127,205
10	White Rain Regular 7.5-oz	73,240	1.49	109,128
11	All Set Unscented 20-oz	56,864	1.69	96,100
12	Clairmist Extra Hold 8-oz	47,407	1.89	89,599
13	Clairmist Extra Hold Unscented 8-oz	44,724	1.89	84,528
14	White Rain Pump Extra Hold 8-oz	49,395	1.49	73,599
15	Miss Breck Super 7-oz	46,022	1.59	73,175

Source: Boston Distributors, Maple Heights, Ohio, for January through December 1987. The company supplies 1,400 stores, including 1,000 discount stores, in the Northeast.
Average retail prices reflect typical price points for mass merchandisers.

(Continued from page 37)

The proliferation of new sku's being witnessed in the eye care category is also taking place in deodorants as manufacturers make sure they are represented by every conceivable form and flavor.

Deodorant sales were up over 5 percent nationally, primarily due to the quicker use-up rate of solids, the fastest growing segment of the category. Solids now represent 50 percent of deodorant sales. Roll-ons and aerosols have fallen to 25 percent and 22 percent, respectively.

The secret to success in the deodorant category is not to submit to the flurry of line extension introductions which are designed by the manufacturers to maximize the shelf space allocated to its brands. Retailers should back off from scents by manufacturers who are not significant players in a given formulation.

Incontinence products were Boston's leading percentage sales increase category in 1987, with a 68 percent gain over 1986 results. Nationally, incontinence is now a $153 million business, up 37 percent over 1986. The category is expected to reach $800 million by 1995 due to market development and the aging of the baby boomer generation.

Mass merchants' share of this lucrative growth market is presently only 5 percent due to the lack of distribution and the limited space devoted to incontinence products. We are recommending a 4-foot to 8-foot section, depending upon store space available, and the age mix of the retailer's consumers.

> ***The secret to success in the deodorant category is not to submit to the flurry of line extension introductions.***

The sanitary protection product movement audit was again led by Tampax, despite the fact that tampons have fallen to less than 36 percent of the total sanitary protection market. Procter & Gamble's Always brand showed significant gains in 1987, placing 6 sku's on the chart.

Always' dry weave lining differentiates it from the rest of the crowd and is the primary reason for its success. In order to protect itself from inroads made by the Always brand, Personal Products will market its Stay Free Maxipad brand with a $2.99 pre-price. Look for Stayfree to launch a dry-weave product similar to Always late in the year.

This year's mouthwash product movement audit was again led by Listerine from Warner-Lambert which placed all five sizes on the chart, including the No. 1 spot. Scope, with its successful launch of a peppermint flavor, placed 8 sku's. At this point, however, it appears that most of peppermint's gains have come from Green Scope, not Listerine.

The mouthwash category is experiencing significant change due to the success of Plax, an antiseptic dental rinse which breaks up plaque prior to brushing. Plax jumped from nowhere to No. 7 on the previously impenetrable mouthwash PMA, and has prompted Colgate to launch its own brand into this new growth segment.

Procter & Gamble is also expected to take its Crest brand of tartar rinse out of the test market and roll it out nationally in the near future.

H&BA sales growth in 1988 will arise in categories in which the manufacturer is putting forth a major marketing effort. Retailers that put department emphasis behind these categories will join in the growth.

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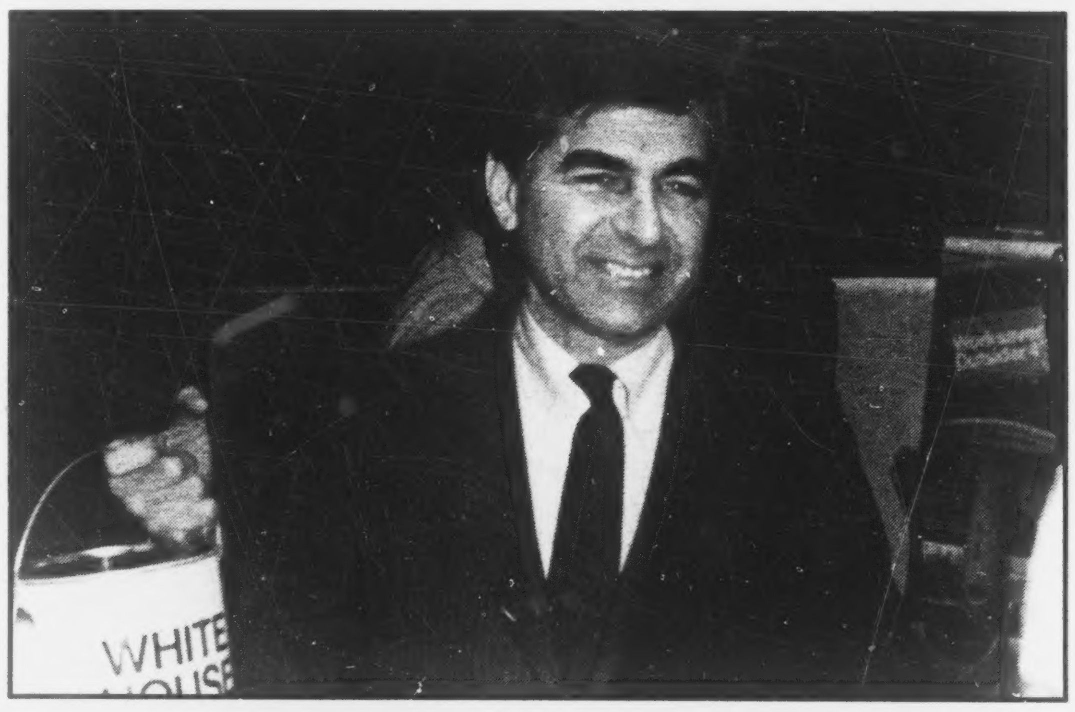
MANUFACTURER NEWS — HARD LINES



CLAREMONT, N.H. — Campaigning presidential candidate Michael Dukakis received a Worksaver paintbrush and a can of "White House Paint" from George Buzuvis, vice president, operations of **American Brush**.

WILLITS, Calif. — **U.S. Leisure**, a producer of outdoor furniture, has cranked up the first phase of an expansion program to increase its domestic capacity to produce resin furniture.

The company has installed four, high-capacity injection molding machines at its Alexandria, Ind., plant, one of 15 domestic plants. It also operates several plants in the Orient. U.S. Leisure will double the work force at Alexandria to use the new machinery.

* * *

RIVER GROVE, Ill. — John Elway, the Denver Bronco quarterback, has signed an agreement with **Wilson Sporting Goods Co.** to join its professional advisory staff and to autograph two new football models. One of the balls will be made of genuine leather, the other is an optic orange synthetic leather model.

* * *

WINSTON-SALEM, N.C. — **R.J. Reynolds**, the tobacco manufacturer based here, announced a promotional trivia contest run in association with its Winston, Salem and Camel Filter cigarette brands. The contest, which started this month and continues through Sept. 30, requires consumers to correctly answer trivia questions included with each pack of the participating brands. The "Millionaire Cash Quiz," contest will award prizes ranging from $2 to $50,000 for correct answers, with winners eligible for a $1 million grand prize drawing.

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Popularity of Straight Hairstyles Sets Sales for Ethnic H&BA

By Tom Hood
Vice President, Sales,
Ben Sheftall Distributing Co.

Ethnic hair care sales, which grew 8 percent during 1987, are expected to rise between 8 percent and 10 percent during 1988, driven by escalating sales of no-lye relaxers, setting gels and oil sheens.

While there has been a drop-off in sales of curl kits and the popularity of the curly style, straight hairstyles have once again become vogue and have stimulated volume of hair preparations formulated to enhance straight styles.

A 10 percent to 15 percent rise in sales of no-lye relaxers and 5 percent to 10 percent growth for styling gels, oil sheens, and hair and scalp conditioners is projected for 1988.

Curl kit sales dropped 12 percent between 1986 and 1987, but curl maintenance items such as curl activators and curl moisturizers have remained constant since these formulas add moisture, and are therefore helpful in adding vitality to dry hair, regardless of whether the hair is worn in straight or curly styles. In fact, the majority of the 25 top dollar movers reported on this product movement audit continue to be curl formulas.

No-lye relaxers, the strongest growth category in ethnic hair care at Ben Sheftall, currently represent 10 percent of the company's ethnic hair care business.

Properly relaxed hair can be worn in many different styles, calling for the use of products such as styling gels, oil sheens, holding sprays and hair dresses. Combined, these maintenance items account for 33 percent of total ethnic hair care sales.

Straight Hair Leaders

Among the leaders in straight hair grooming aids are Lustrasilk Right On Curl Instant Moisturizer and Conditioner, Sta Sof Fro Oil Sheen and Ultra Sheen Conditioner & Hair Dress.

Unit sales of straight hair care formulas are rising. However, retailers face the problem of the relatively lower price points these formulas carry when compared with curl kits.

Retailers will need to either broaden their customer base, or otherwise increase unit volume in order to reap the same gross margin gains.

Growth in Hair Colorings

Hair colorings for the ethnic shopper is another segment of the market experiencing tremendous growth. Nationally, sales are estimated to be climbing $15 million per year. Carson Products, makers of Dark & Lovely, is the market leader by far, however, Soft Sheen and Revlon are making inroads in its dominance.

Hair colors manufactured specifically for the black consumer fill a need that has been long overlooked. Hair colorings formulated for the general market do not bond as well with the hair and do not deliver the true desired color as well as those created with the black user in mind.

While there are reliable, steady sales performers within the ethnic H&BA category, lack of product innovation is causing problems for the retailer.

"Me too" introductions fail to deliver a new customer to the retailer. As a result, retailers must go out of their way to entice the consumer into their stores through the use of promotions and competitive pricing as well as continuing to maintain an in-stock position on popular products.

ETHNIC HEALTH & BEAUTY AIDS

$ Rank	Item	Unit Movement	Average $ Retail	Total $ Movement
1	Worlds of Curls Gel, regular, 6 oz.	333,933	3.32	1,108,658
2	Lustrasilk Right On Curl Liquid, normal	337,817	3.19	1,077,636
3	Worlds of Curls Gel, x/dry, 6 oz.	252,843	3.32	839,439
4	Care Free Curl Instant Moist, 8 oz.	277,073	3.61	819,734
5	Care Free Curl Activator, 8 oz.	179,272	3.87	693,783
6	Worlds of Curls Comb Out, regular, 8 oz.	223,851	2.89	646,929
7	Care Free Curl Snap Back, 8 oz.	166,583	3.27	544,726
8	Long Aid Gel Activator, 10.5 oz.	179,801	2.98	535,807
9	Lustrasilk Right On Curl Inst Cond., 8 oz.	157,276	3.36	528,447
10	Worlds of Curls Comb Out, x/dry, 8 oz.	179,329	2.89	518,261
11	Worlds of Curls Gel, regular, 10.2 oz.	123,286	4.04	498,075
12	Lusters S-Curl Activator, 8 oz.	125,052	3.78	472,697
13	Sta Sof Fro Oil Sheen, x/dry, 8 oz.	141,032	3.26	459,764
14	Worlds of Curls Gel, x/dry, 10.2 oz.	111,732	4.04	451,397
15	Long Aid Curl Act. Gel, x/dry, 10.5 oz.	143,652	2.98	428,083
16	Lustrasilk Curly Look Control, 12 oz.	106,435	3.36	357,622
17	Money House Blessing Spray	106,110	2.76	292,864
18	Ultra Sheen Cond. & Hair Dress, 2 oz.	159,507	1.66	264,782
19	Royal Crown Hair Dress, 5 oz.	156,907	1.66	260,466
20	Plastic Caps, 3 each	385,163	0.67	258,059
21	Magic Shave Powder Blue, 5 oz.	200,139	1.23	246,171
22	Murray's Super Hair Pomade, 3 oz.	128,380	1.91	245,206
23	Lusters Moisturizing Oil, 4 oz.	97,449	2.46	239,725
24	Magic Shave Powder Gold, 4.5 oz.	147,679	1.52	224,472
25	Dax Pomade, 7.5 oz.	91,388	2.42	221,159

Source: Ben Sheftall Distributing Co. Inc., Savannah, Ga., for calendar year 1987. The company supplies more than 5,000 stores.

ETHNIC HEALTH & BEAUTY AIDS

$ Rank	Item	Unit Movement	Average $ Retail	Total $ Movement
1	Carefree Curl Moisturizer 16 oz.	48,576	4.99	242,394
2	Dark & Lovely Relaxer Kit	20,783	5.97	124,074
3	Carefree Curl Activator 16 oz.	20,587	5.19	106,847
4	Carefree Curl Moisturizer 12 oz.	20,082	4.39	88,160
5	Carefree Curl Moisturizer 8 oz.	28,936	2.99	86,519
6	Dark & Lovely Plus Relaxer Kit	14,450	5.97	86,266
7	Sof-N-Free Curl Moisturizer 16 oz.	19,555	4.19	81,935
8	Gentle Treatment Relaxer Kit	10,550	6.99	73,745
9	Right-On Moisturizer/Activator Normal 16 oz.	11,319	5.47	61,915
10	Luster S Activator/Moisturizer Regular	11,337	5.39	61,106
11	Carefree Curl Activator 12 oz.	12,883	4.59	59,133
12	Carefree Curl Activator 8 oz.	18,521	3.19	59,082
13	Dark & Lovely Excelle Kit	7,939	6.59	52,318
14	TCB Hair & Scalp Conditioner 8 oz.	17,833	2.39	42,621
15	Luster S Oil Moisturizer 8 oz.	13,024	3.19	41,547

Source: Boston Distributors, Maple Heights, Ohio, for January through December, 1987. The company supplies 1,400 stores, including 1,000 discount stores, in the Northeast, Maine to Florida.

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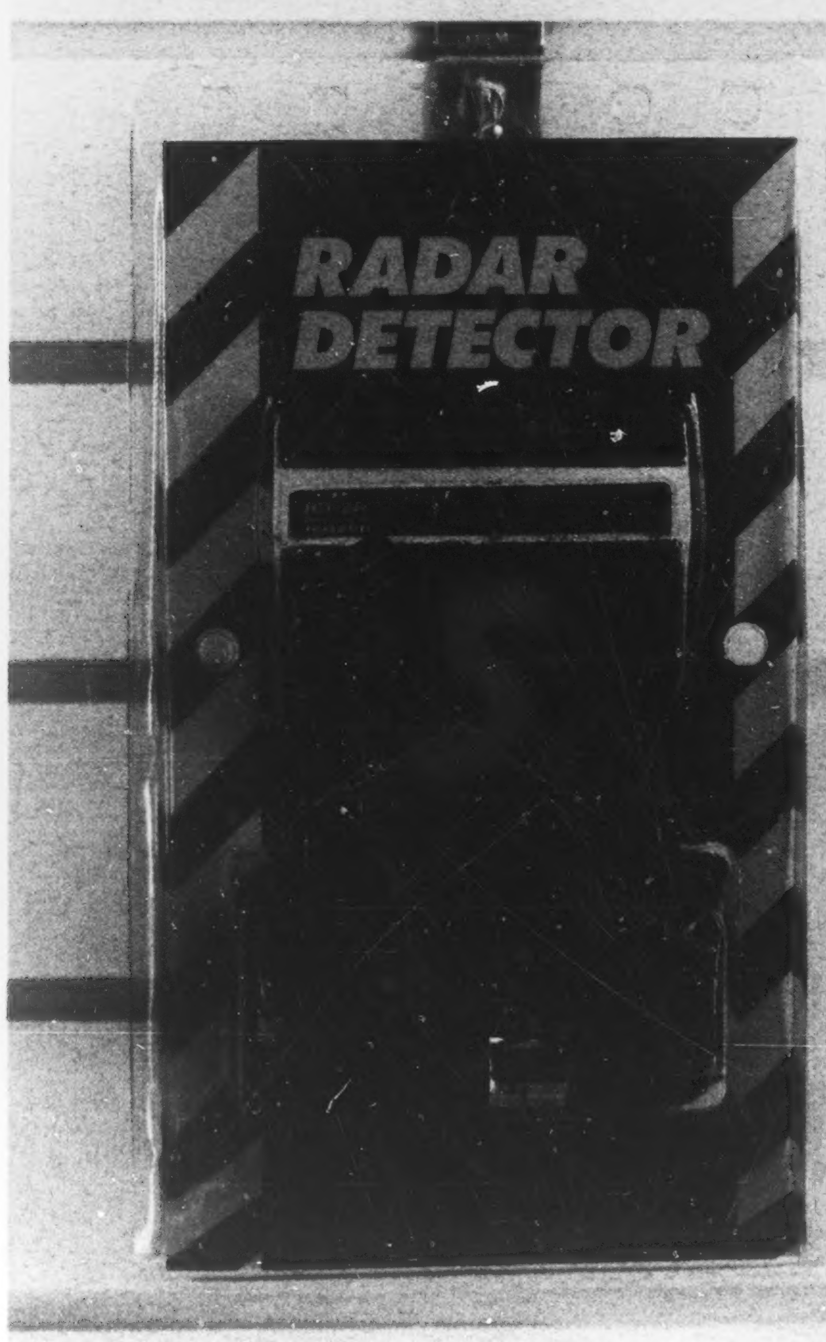

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There's only one way to improve a Maxon RD-2A Radar Detector…improve the display packaging. So that's just what we did.

Now the RD-2A's in a compact, tamper/pilfer-resistant, show-and-sell clamshell package. This new clamshell measures only 6¼" × 11", with a 2¾" base—taking up a minimum amount of your "SKUseable" space. Sitting on the shelf or hanging on a display.

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Then, of course, inside there's the Maxon full-featured RD-2A Radar Detector. This dual conversion superhet receiver detects X and K band police radar surveillance and alerts the driver within 1/8 of a second. Also featured are anti false alarm circuitry and City/Highway sensitivity selection.

See for yourself what a difference teaming the RD-2A with its new clamshell makes. Contact Maxon for all the details. Then place that first (of many) "on-the-clamshell" order.

Maxon's RD-21 "Mini" detector is also available in clamshell packaging.

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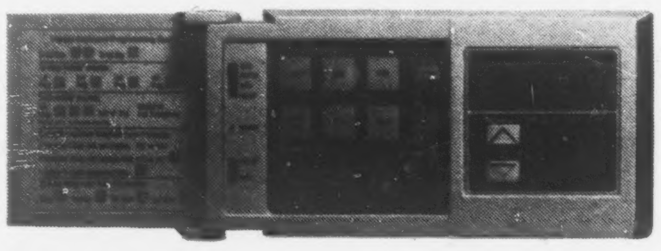
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Promotions of Upscale Products Boost Stationery Sales 28%

By Charles Bowlus
Executive VP, Sales
Boston Distributors

$ Rank	Item	Unit Movement	Average $ Retail	Total $ Movement
	WRITING INSTRUMENTS			
1	Crayola Markers Broad 7708	31,296	2.49	77,927
2	Crayola Markers Fine	28,734	2.49	71,548
3	Faber 10-Pack Pencils	142,795	0.49	69,970
4	Bic 10-Pack Pens Blue	46,924	1.49	69,917
5	Papermate 10-Pack Pens Blue	37,435	1.49	55,778
6	Crayola Markers Soft-Light Fine	22,378	2.49	55,721
7	Crayola Markers Washable	18,030	2.99	53,910
8	Bic 10-Pack Pens Black	36,166	1.49	53,887
9	Papermate 10-Pack Pens Black	34,981	1.49	52,122
10	Carter Marks-A-Lot Black	73,768	0.69	50,900
11	Crayola Markers Soft-Light Broad	19,123	2.49	47,616
12	Bic Round Stic Blue 10-Pack	35,552	1.29	45,862
13	Crayola Marker Soft-Light Washable	14,710	2.99	43,983
14	Parker Classic Pen/Pencil Set	1,931	18.99	36,670
15	Bic Round Stic Black 10-Pack	28,418	1.29	36,659
	FILES, BOXES & DESK ACCESSORIES			
1	Sentry Fire Safe #1100	8,758	23.69	207,477
2	Sentry Valueguard Safe #1250	727	119.95	87,204
3	Kero Wooden 2-Drawer File	1,166	56.49	65,867
4	Sentry Fire Safe Security File #1170	1,008	56.49	56,942
5	Rubbermaid Box Office Gray	4,121	12.89	53,120
6	Rubbermaid Box Office Slate	3,833	12.89	49,407
7	Esselte Keep-It File	2,227	21.89	48,749
8	Rubbermaid Desktop System Almond	4,560	10.69	48,746
9	Esselte File-It Brown	3,488	13.88	48,413
10	Esselte File-It Almond	3,384	13.88	46,970
11	Rubbermaid Desktop System Slate	4,378	10.69	46,801
12	Tuff File I Brown	2,011	22.69	45,630
13	WPJ Insulated Security Chest	3,101	13.97	43,321
14	Rubbermaid Desktop System Smoke	4,039	10.69	43,177
15	Kero Wooden 3-Drawer File KD	642	59.87	38,437

$ Rank	Item	Unit Movement	Average $ Retail	Total $ Movement
	FLAT HOME OFFICE PRODUCTS			
1	Esselte Hanging File Folder System 18559	23,373	9.87	220,822
2	Esselte Hanging File Folders 10-ct	26,742	4.97	133,156
3	Hunt Electric Sharpener 1800	8,256	15.69	129,537
4	Esselte File Folder 100-ct	16,789	5.69	95,529
5	Panasonic Pencil Sharpener KP100	3,753	21.69	81,403
6	Cambridge Prof. Trapper Portfolio Ntbk. 46096	5,050	13.69	69,135
7	K&M Slantring 1½" Binder SR115	12,086	5.34	64,539
8	Panasonic Electric Sharpener KP120	2,035	9.87	54,226
9	Esselte Hanging File Folder 20-ct	5,154	10.87	56,024
10	Cambridge Portfolio w/Binder 33082	5,494	9.87	54,226
11	Cambridge Prof. Portfolio Let. Sz. 33928	6,178	7.97	49,239
12	Esselte 48-ct File Folder 40482	14,323	3.28	46,979
13	Cambridge Personal Trapper Portbook 46100	3,275	11.97	39,202
14	Cambridge Address Book 07300	6,237	5.97	37,235
15	Cambridge Professional Portfolio 5x8	6,126	5.34	32,713
	FLAT SCHOOL PRODUCTS			
1	Filler Paper Wide 200-ct 10200	278,625	0.69	192,251
2	Filler Paper Narrow 200-ct, 10203	190,956	0.69	131,760
3	Mead Trapper Keeper Binder 29096	20,748	5.99	124,281
4	Mead Supershades Binder 29612	17,508	5.99	104,873
5	Mead Trapper Keeper Designer Binder 29100	16,930	5.99	101,411
6	Theme Book Wide 70-ct 37670	151,170	0.49	74,073
7	Mead 5-Star 3-Subject 150-ct 11x8	13,512	3.49	47,157
8	Mead Glare Theme College 3-Subject 150-ct	14,047	2.97	41,720
9	Mead Data Center Binder 29020	6,929	5.99	41,505
10	Mead 5-Star Theme 2-Subject 100-ct 86182	16,489	2.49	41,058
11	K&M Slide Report Cover 3-Pack 47314	15,402	2.49	38,351
12	Mead Wrapper Vinyl Theme Cover 33514	21,157	2.49	36,135
13	Mead Theme Varsity 100-ct 06500	29,195	1.19	34,742
14	Mead Trapper Portfolio 2-Pack 33100	57,604	0.59	33,986
15	Mead 5-Star 5-Subject 200-ct 8x11	8,025	3.97	31,859

Source: Boston Distributors, Maple Heights, Ohio, for January through December, 1987. The company supplies 1,400 stores, including 1,000 discount stores, in the Northeast. Average retail prices reflect typical price points for mass merchandisers.

Stationery, school supplies and home office products surged 28 percent in sales volume in 1987 due to manufacturer promotions of higher-priced, upscale products that are boosting dollar sales and profits.

Manufacturers such as Mead, Esselte, Rubbermaid and Crayola are attempting to further drive sales by upgrading the quality of stationery products, improve packaging and create powerful merchandising presentations.

These manufacturers have learned that American consumers are willing to pay more for a better product in a more attractive package. And retailers who support programs such as Cambridge, Crayola and Supershades will achieve greater dollar sales and higher direct product profit.

The top sales increases at Boston Distributors in 1987 were led by the home office categories, specifically the flat home office product segment.

But the No. 1 stationery product overall was Esselte's hanging file folder system No. 18559, with a per unit cost of $9.87. It also topped all flat home office products on the 1987 product movement audit for the second consecutive year. Esselte also came in second with the 10-count folder—also for the second year in a row—and No. 9 with the 20-count folder.

Endcaps and ads on the Esselte folders did extremely well due to the popularity of home file cabinets and the excellent packaging of the Esselte line.

Esselte also scored well, fourth on the PMA list, with its 100-count hanging file folders, ninth with its 20-count package, and 12th with the 48-count file folder No. 40482.

The two highest ticket items in flat home office were electric pencil sharpeners, which helped drive up sales and profits in the category.

Hunt's electric sharpener took up honors with its model No. 1800, at $15.69, which placed third on the PMA. And Panasonic hit No. 5 with KP100 at $21.69, and No. 8 with KP120 at $9.87.

Another major factor in the success of the flat home office category was the upgrading of unit sales by Mead's Cambridge line. Boston Distributors' top Cambridge items were the upscale vinyl portfolios including the professional Trapper at $13.69; portfolio with binder, $9.87; letter size portfolio, $7.97; and the personal size Trapper at $11.97.

The strong packaging, higher counts and superior quality of Cambridge gave retailers an impactive home office presentation that yielded greater sales and profits resulting from higher retail prices commanded by the line.

The manufacturer who upgrades the product quality, packaging and counts of traditional flat office and typing products could meet with similar success.

An upgrading in the files and desk accessories category has had a significant impact on this category's sales in 1987.

Sentry took three of Boston's top four rankings with its Fire-Safe line of chests, files and safes. Sentry's model 1100 took the top spot with a $23.69 price point. Safe model 1250, at $119.95, came in second, and the security file model 1170, at $56.49, captured the fourth spot.

Kero's wooden 2-drawer file cabinet jumped up to the No. 3 slot, also at $56.49.

Rubbermaid captured five positions on Boston's 1987 files and desk accessories PMA, including fifth and sixth, with its Box Office in gray and slate, and Nos. 8, 11 and 14 with the Desktop System in almond, slate and smoke.

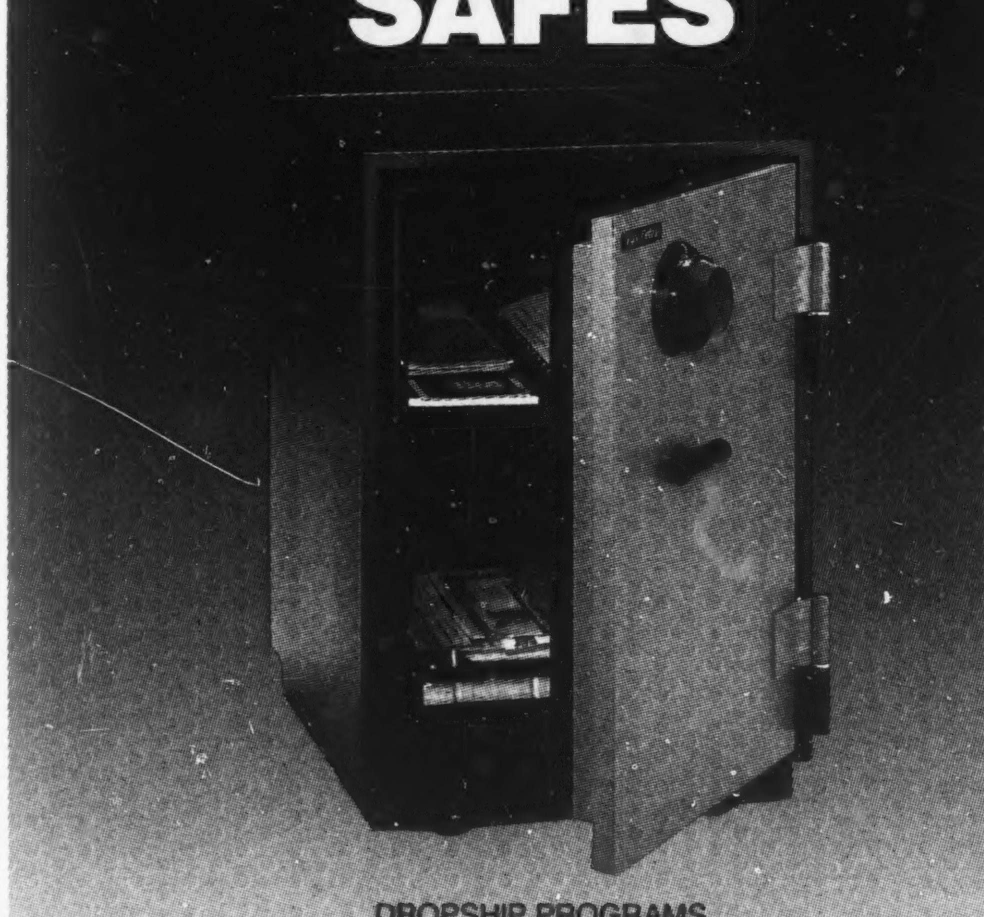
Rubbermaid will give its program a boost in 1988 with the introduction of a portable desk and a storage clipboard, both available in slate, mauve, almond and gray.

Esselte did well on the file and desk accessory chart in 1987 taking the seventh slot with its Keep-It File in yellow and No. 9 and No. 10 with File-It in brown and almond. Esselte will be moving to brighten up the department in 1988 with red, yellow, green and blue in file cabinets, file folders, file boxes and desk accessory lines.

In fact, colors continue to be the driving force behind the

(Continued on page 46)

FIRE AND THEFT RESISTANT
SAFES



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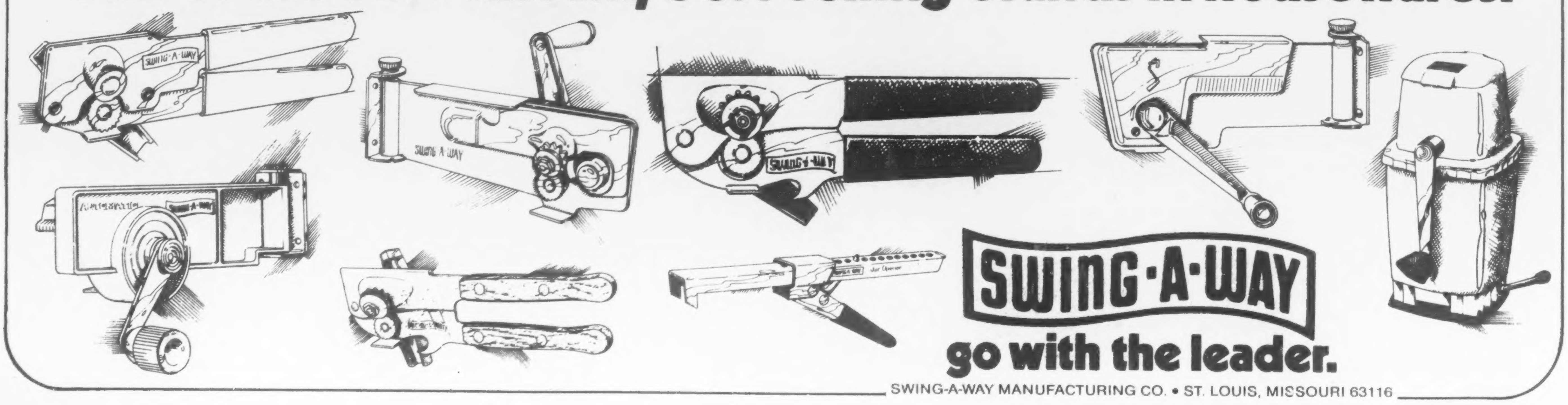

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Art Supplies
Art Supplies

The Crayola line, with six items in the top 15 writing instrument PMA, is effectively merchandised at K mart, Austin, Texas, with other art supplies such as glues and construction paper. (DSN photo)

Promotions of Upscale Stationery/ Home Office Goods Boost Sales 28%

(Continued from page 45)

merchandising strategies in the category with vertically segmented presentations of Esselte and Rubbermaid working well to maximize the impact of the presentation.

Crayola was the big mover on the peg wall in 1987, taking six slots on the writing instruments PMA with its marker line. It took first and second place with the regular markers, sixth and 11th with the Soft-Light markers, and seventh and 13th with the washable sku's.

The strength of the markers has enabled Crayola to expand its range of offerings to include a variety of art supplies including colorworks brushes and scissors.

The strength of the Crayola line, including crayons of course, creates a super art department when combined with glues, construction paper and poster boards. Many retailers are successfully replacing traditional art departments with this type of approach.

Bic led Boston's top commodity pen list, placing the 10-pack stick pen in the fourth and eighth positions on the writing instruments PMA. Papermate followed Bic with rankings of fifth and ninth. Bic's lower-cost round stick pen took the 12th and 15th positions.

The stick pen market appears to be coming in at about the same price levels as 1987 with Bic, Papermate and Scripto still the major players. Some retailers are beginning to question the need to stock two or even three lines of commodity pens. And if this trend continues, pricing may fall lower as the competitive environment intensifies.

Paper Prices on Rise

Commodity paper prices are coming in much higher this year than in 1987 as manufacturers are looking to upgrade non-commodity offerings and to back off from the low-profit filler paper and wirebounds. Prices are not expected to fall significantly over the next month but they should level out at least 10 percent higher than in 1987.

Filler paper again led Boston's flat school PMA in 1987 taking the top two spots. Commodity theme books were led by the 70-count book in the No. 6 spot, followed by the 100-count Varsity college rule in 13th place.

Manufacturers' efforts to upgrade their offerings to produce higher price points and profits are beginning to pay off, specifically in the case of Mead's 5-Star line.

The 5-Star 3-subject Book with a retail price of $3.49 was the No. 7 item, and the 2-Subject Book at $2.49 was 10th. The 5-subject Book at $3.97 rounded out the PMA list at No. 15.

Non-Commodities

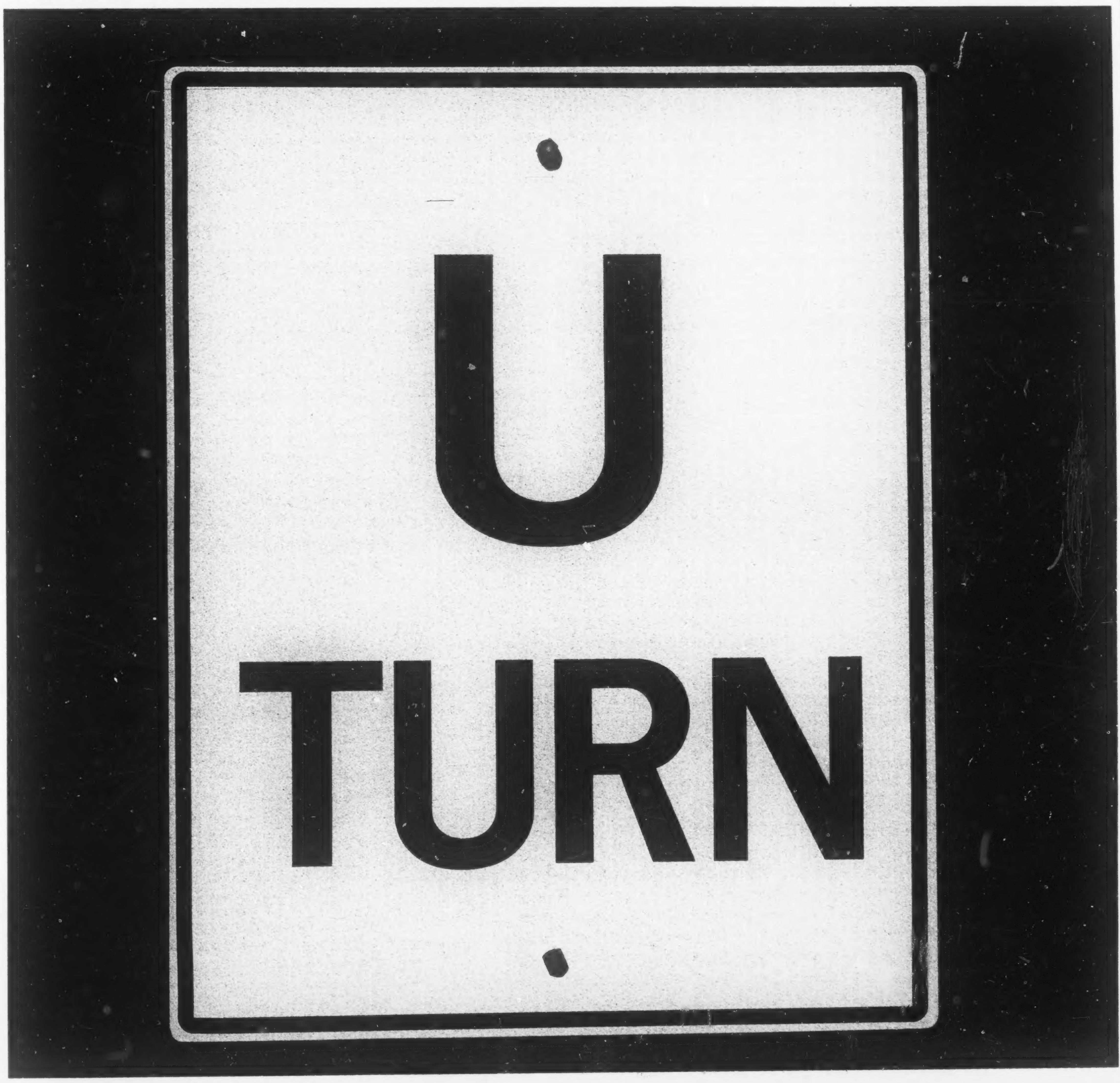
Mead's effort to develop the higher-priced non-commodity business has also been successful in the marketing of the Supershades line which has now been expanded to include locker mirrors, memo pads and stationery in addition to binders—the No. 4 item—and theme books.

The Supershades line, when merchandised in its own 4-foot by 8-foot section, creates a strong presentation, especially if the effect is coordinated with color-merchandising in the home office area.

And in wireless notebooks, retailers earned retail prices of about 20 percent higher than on commodity paper last year, improving department profitability. Boston Distributors expects wireless books to double in sales this year. Fashion notebooks will do well, too.

Fashion offerings which look good for 1988 include Plymouth's Outback Series of cloth portfolios, themes and memos which should appeal to the Banana Republic crowd; Eurotec's geometric designs; Cosmetique, with popular nail colors for girls; and Fisher-Price should appeal to the younger set.

Mead's new entries which should do well in 1988 include the Sneaks and the Wild Things lines.



Stock the best-selling products and this happens.

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BIC

10
10 SUPER SAVER
BIC
10 SUPER SAVER
BIC
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Promotional Toys, Video Games Lead the Way for 1988 Sales

By Jeffrey C. Kasch
President
M.W. Kasch Company

The early success of new promotional toys like Coleco's Scribble Stix soap crayons, Coleco's Jamball, Galoob's extension of its Micro Machines vehicles and Fisher Price's Smooshees characters, bode well for a long-awaited turnaround in the toy industry.

Another favorable development this year is the focus on lower price points. While toy makers touted $100 dolls last year, most price points on new toy introductions this year are falling below $40.

Despite these positive developments, industry growth will remain flat for toys in 1988. There's an unhealthy environment with many retailers, manufacturers and distributors posting losses for the year. The shakeout in 1988 will result in fewer retailers, manufacturers and distributors in the industry.

Sales were down 5 percent to 20 percent in 1987 when sales from video games were stripped from toy volume.

Nintendo was clearly the top money maker in 1987. It holds a high share of the video game market and will continue to maintain that position of dominance throughout 1988.

Nintendo has been able to obtain dominance over other video game makers because of its play and graphics value, the way in which it controls software, and the unmet demand it creates.

Currently, the demand for Nintendo far exceeds the supply, with 30 out of every 100 customers left empty-handed. Atari is growing with the business while Sega is trying to fill Nintendo's void in demand.

Rather than compete with Nintendo and expand the boy's toy category, most toy vendors have geared 1988 toys for the girls, preschool and board games category.

Nevertheless, two strong contenders to take away some of the video game category sales this year will be Kenner and its introduction of Starting Lineup realistic sports figures and Mattel with its Color Racers Hot Wheels cars.

Most of the boy's action lines and attempts at interactive games last year failed.

Mattel's Captain Power, which was expected to be one of the hottest toys of 1987, could not compete with video game sales because the play value implied was never delivered. It was harder for the child to play with Captain Power than was promised.

The only two lines of the many male action figures introduced in 1987 that made a substantial profit were Kenner's Ghostbusters and Silverhawks. Ghostbusters fared well as it is more of a preschool line than a boy's action product. Silverhawks sold well because it was one of the first action lines out in the marketplace. Hasbro's G.I Joe and Transformers also produced favorable 1987 sales.

The consumer is disenchanted with licenses and high priced gimmicky toys. The industry is falling back on toys that have achieved longevity in the market.

It will again be a good year for Mattel's Barbie, fashion jewelry for girls and lines of Little Tikes and Fisher Price.

While Fisher Price's "Fun with Food" line was one of the hottest toys in 1987, insufficient supply kept the item a low dollar mover for the year.

Board games such as Games Gang's Pictionary and Bradley's Win, Lose or Draw will continue to do very well in 1988. Another winning category for 1987 that should do well in 1988 is the radio controlled vehicles such as the Nikko Jet Panther.

Hasbro's Pogo Bal, thought to be only a seasonal toy, shocked the toy industry. Sales stopped after June and July, but they suddenly took off again in the fourth quarter.

Coleco's Talking Alf was one of the few talking toys to do well last year. Cabbage Patch was the dominant doll last year and should continue to dominate in 1988. While talking Teddy Ruxpin sold well again in 1987, its 1988 success depends on Worlds of Wonder's fate as the company has filed Chapter 11.

And, based on the the Product Movement Audit, Tonka's Pound Puppies and Worlds of Wonder's Lazer Tag appear to have lost the ability to capture any attention.

$ Rank	Item	Unit Movement	Average $ Retail	Total $ Movement
	TOYS			
1	Nintendo Control Deck	40,000	79.99	3,199,600
2	Games Gang Pictionary	110,000	22.99	2,528,900
3	Hasbro G.I. Joe Figures	304,000	2.99	908,960
4	Hasbro Pogo Bai	51,000	15.99	815,490
5	Nikko RDC Jet Panther	14,000	49.99	699,860
6	Atari Video Game System	10,000	44.99	449,900
7	Bradley Scruples	29,000	14.99	434,710
8	Galoob Micro Machines Asst.	87,000	4.99	434,130
9	Coleco 21" A.L.F.	13,000	24.99	324,870
10	Pressman Wheel of Fortune	24,000	12.99	311,760
11	Kenner Ghostbusters Hero Figures	46,000	5.99	275,540
12	Kenner Silverhawks Hero Figures	39,000	6.99	272,610
13	Coleco 12" Cabbage Patch Babies	13,000	19.99	259,870
14	Bradley Win, Lose or Draw	17,000	14.99	254,830
15	Worlds of Wonder Lazer Tag	6,000	39.99	239,940
16	Coleco 16" Cabbage Patch Kids	15,000	15.99	239,850
17	Mattel Tropical Barbie	30,000	7.99	239,700
18	Hasbro Battle Beasts	79,000	2.99	236,210
19	Hasbro Visionaries Figures	33,000	6.99	230,670
20	Matchbox Rubiks Magic Puzzle	28,000	7.99	223,720
21	Kenner Ghostbusters Action Ghosts	31,000	6.99	216,690
22	Ohio Art Etch-A-Sketch	21,000	9.99	209,790
23	Worlds of Wonder Talking Teddy Ruxpin	4,000	49.99	199,960
24	Fisher-Price Magic Vac	11,000	17.99	197,890
25	Mattel Barbie New Rockers	16,000	11.99	191,840
26	Hasbro Transformers Throttlebots	47,000	3.99	187,530
27	Games Gang Pictionary Jr.	14,000	12.99	181,860
28	Parker Monopoly	18,000	9.99	179,820
29	Kenner Sky Commanders Figures	25,000	6.99	174,750
30	Tonka Pound Puppy w/Baby	10,000	16.99	169,900
31	Play-Ed Card Games Display	161,000	.99	159,390
32	Playskool Alphie	6,000	24.99	149,940
33	Fisher-Price 8" Puffalumps Easter	15,000	9.99	149,850
34	Selchow & Righter Scrabble	15,000	9.99	149,850
35	Hasbro Trans. Decept. Spec. Vehicles	25,000	5.99	149,750
36	Bradley T.H.I.N.G.S. Asst.	21,000	6.99	146,790
37	Eagle Rubber 9" Glo Playballs	148,000	.99	146,520
38	Mattel Funtime Barbie	12,000	11.99	143,880
39	Bradley Trouble	16,000	8.99	143,840
40	Worlds of Wonder Mickey Mouse	2,000	69.99	139,980
41	Galoob Sweet Secrets Cosmetics	28,000	4.99	139,720
42	Kenner Play-Doh 4-pack	55,000	2.49	136,950
43	LJN Toys Wrestlers - Good Guys	17,000	7.99	135,830
44	Bradley Hungry Hungry Hippos	9,000	14.99	134,910
45	Silly Putty	97,000	1.39	134,830
46	Bradley Mousetrap	10,000	12.99	129,900
47	Pressman Dizzy Dizzy Dinosaur	10,000	12.99	129,900
48	Hasbro Moondreamers	16,000	7.99	127,840
49	Bradley Candyland	18,000	6.99	125,820
50	Galoob Micro Machines Pocket Playset	21,000	5.99	125,790
51	Fisher-Price Wild Puffalump	6,000	19.99	119,940
52	Hasbro 7" Disney Babies	12,000	9.99	119,880
53	Mattel Lady Lovelylocks Doll	12,000	9.99	119,880
54	Fisher-Price Animal Sounds Barn	7,000	16.99	118,930
55	Bradley Life	9,000	12.99	116,910
56	Matchbox Superchargers	39,000	2.99	116,610
57	International Game Uno Game	25,000	4.49	112,250
58	Kenner Silverhawks Villain Figures	14,000	7.99	111,860
59	Mattel Puffling Popples	14,000	7.99	111,860
60	Mattel Tropical Miko	14,000	7.99	111,860
61	Panosh Zap-It	16,000	6.99	111,840
62	Matchbox Convoy Asst.	28,000	3.99	111,720
63	Mattel New Rockers Barbie	10,000	10.99	109,900
64	Coleco 16"Cabbage Patch Talking Kids	1,000	109.00	109,000
65	Coleco 48" Toboggan	12,000	8.99	107,880
65	Bradley Pig Pong	7,000	14.99	104,930
67	Hasbro Trans. Autobot Spec. Vehicles	21,000	4.99	104,790
68	In-Tech Lolo Bal	8,000	12.99	103,920
69	Hasbro Little Pony Twice As Fancy	17,000	5.99	101,830
70	Hasbro Little Pony Twinkle Eyed Asst.	17,000	5.99	101,830
71	Tyco Ind. Radio Control Turbo Hopper	2,000	49.99	99,980
72	Coleco Cabbage Patch Cornsilk Kids	4,000	24.99	99,960
73	Buddy L Phaser Force Battle Set	5,000	19.99	99,950
74	Fisher-Price Farm Playset	5,000	19.99	99,950
75	Fisher-Price Super Skillet Breakfast Set	5,000	19.99	99,950
76	Bradley Jitters	10,000	9.99	99,900
77	Hasbro G.I. Joe Cobra Wolf Vehicle	10,000	9.99	99,900
78	Hasbro Little Pony Newborn Twins	10,000	9.99	99,900
79	Supertoy 10-oz. Filled Gum Bank	20,000	4.99	99,800
80	Bradley Operation	9,000	10.99	98,910
81	Kenner Fun Factory	14,000	6.99	97,860
82	Bradley Big Ben Puzzle	34,000	2.79	94,860
83	Matchbox Motor City	19,000	4.99	94,810
84	Tonka Baby Keypers	19,000	4.99	94,810
85	Kenner Play-Doh Gadgets	31,000	2.99	92,690
86	Bradley Bed Bugs	7,000	12.99	90,930
87	Bradley Feed Me	7,000	12.99	90,930
88	Playskool Sesame St. Busy Poppin' Pals	7,000	12.99	90,930
89	Fisher-Price Pop-Up Playhouse	3,000	29.99	89,970
90	Mattel Jewel Secrets Barbie	6,000	14.99	89,940
91	Mattel Jewel Secrets Whitney	6,000	14.99	89,940
92	Fisher-Price Little Mart Playset	6,000	14.99	89,940
93	Enertech Motorized Water Hawk Gun	9,000	9.99	89,910
94	Fisher-Price Time Jammers	9,000	9.99	89,910
95	Hasbro Little Pony Princess Ponies	10,000	8.99	89,900
96	Hasbro Little Pony Baby Ponies	15,000	5.99	89,850
97	Playskool Mr. Potato Head	18,000	4.99	89,820
98	Galoob Sweet Secrets Jewelry	20,000	4.49	89,800
99	Mattel Tropical Ken	11,000	7.99	87,890
100	Tomy Corp. Wee Waterfuls	23,000	3.79	87,170
101	Fisher-Price Bubble Mower	5,000	16.99	84,950
102	Tonka Keypers	7,000	11.99	83,930
103	Tonka Maple Town Families	7,000	11.99	83,930
104	Worlds of Wonder Books/Tapes Pre-Pack	7,000	11.99	83,930
105	Galoob Micro Machines Book Play Set	9,000	8.99	80,910
106	Kenner Spirograph-Plus	9,000	8.99	80,910
107	Parker Clue (VHS) VCR Game	2,000	39.99	79,980
108	Bradley Torpedo Run	4,000	19.99	79,960
109	Selchow & Righter Trivial Pursuit	4,000	19.99	79,960
110	Parker Nerf Indoor Golf	5,000	15.99	79,950

Source: M.W. Kasch Company, Mequon, Wis., for Jan. 1 to Dec. 31, 1987. The company supplies 2,000 stores, including approximately 765 discount stores in 30 Midwestern and Western states.

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Firearm Sales Revival Powers Sporting Goods

By Frank Katlin
Vice Chairman
Maurice Sporting Goods

Very strong firearm sales and a resurgence of outdoor activities keyed a strong sporting goods year in 1987, and the outlook for 1988 is more of the same.

In a year that won't go down in retail record books, sporting goods as a category was one of mass merchandisers' three or four bright spots, posting modest but significant gains in virtually all product areas.

Merchandise Turn

Unseasonably mild weather throughout most of the country last February and March gave retailers an early boost, and may have provided many with an extra merchandise turn in 1987.

Even as the stock market rose, consumers exhibited uncertainty about the economy in general, and that may have led to augmented sporting goods sales. In addition, manufacturers maintained strong price-point positions, keeping the products very affordable. Of these issues, only consumer uncertainty seems to remain in 1988. But more on that topic later.

Convincing Comeback

After seven or eight consecutive lackluster years, firearms staged a convincing comeback. Two years of effort in cleaning up inventories paid off, as demand stepped up and a new wave of product moved through a clean pipeline. Promotionally priced products, like the Marlin 605 rifle with scope and the Remington 870 Express shotgun, led the way.

The Remington was the season's hottest product, its sales limited only by limited supply. The Remington shotgun will probably retain its popularity this year, but supplies will still be outstripped by demand—production has not been increased and supplies will remain tight.

The fishing tackle market was, along with camping equipment, the area most affected by the terrific weather last spring.

Sales of firearms, seen here at K mart, Metairie, La., surged in 1987, reflecting increasing interest in outdoor activities and a clearing of the inventory pipeline. Promotional shotguns and budget rifle/scope combos spearheaded the revived category. (DSN photo)

But the improved sales reflected more than just a string of warm, sunny weekends. Mass merchandisers were stronger than ever in serving specialty markets.

Where once they were content to offer generic fishing equipment, many retailers have chosen to exploit lucrative regional specialties. Coastal retailers, for instance, have strengthened their saltwater combos, and sales of Johnson Crappie combos were very strong. The geographic approach also showed up in sharply focused terminal tackle assortments.

Another sales stimulant was the exploitation of the kid's market. Apart from attracting fishermen of the future to the sport, these promotional efforts racked up some significant sales for several chains. Ames, for instance,

(Continued on page 51)

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Summer's the time that most people take to the highway. And we'll make sure the first route they take is the one to your store. By giving rebates that let customers save up to $20 on Champion products. Including spark plugs, spark plug wires,

Sharper Firearms Inventories Stimulate Sporting Goods Sales

(Continued from page 50)

ran a very successful endcap promotion, and several other major discounters were highly promotional with beginners' combos.

The Zebco Snoopy/Mickey kits were the most obvious beneficiaries of this promotional blitz, but several low-cost kits turned in some impressive sales numbers as well.

Improving Products

Overall, manufacturers of fishing equipment continued to improve the cosmetics of their products as well as their "bells and whistles" quotient, which certainly helped sales. But it was the strong price stance that most appealed to casual fishermen. At anywhere from $12.99 to $21.99 for a solid rod and reel combo, fishing equipment remains one of the greatest bargains in the marketplace and the consumer seems to know it.

Despite the negation of many of the factors that made 1987 a strong year, 1988 looks to be very nearly as favorable for sporting goods sales.

Fishing and hunting are both in strong growth cycles (along with most outdoor activities) and even slumping areas like fitness equipment seem to have rallied. Even without the boost retailers got from last spring's mild weather, spring sales for 1988 should be strong.

Growth this year will be accomplished in the face of short supply, rising prices and an uncertain economy. As of May 1, in most cases (and June 1 in many others), prices in most product areas will increase 7 percent to 9 percent. For some manufacturers, this is their first mid-season price increase ever; for most, it's something they haven't done for years.

This will be on top of the annual price increases next fall, which will run between 5 percent and 8 percent. Taken together, the price hikes will total about 15 percent, the largest across-the-board raise ever in the category. Although many manufacturers have held off raising prices (or settled for very small increases), consumers will not be happy.

Most of the increase is due to fluctuating prices in the Orient and the weakness of the dollar against other currencies, and that situation is bound to get worse. Additionally, rising demand has created severe shortages in some areas, which in turn has boosted prices of imported goods further.

Despite a jump in price, sports equipment will remain a good value. Historically, manufacturers have hiked prices less often than was common in most other industries, and while a sudden jump may scare off some customers in the short term, the overall value of outdoor activities will bring them back.

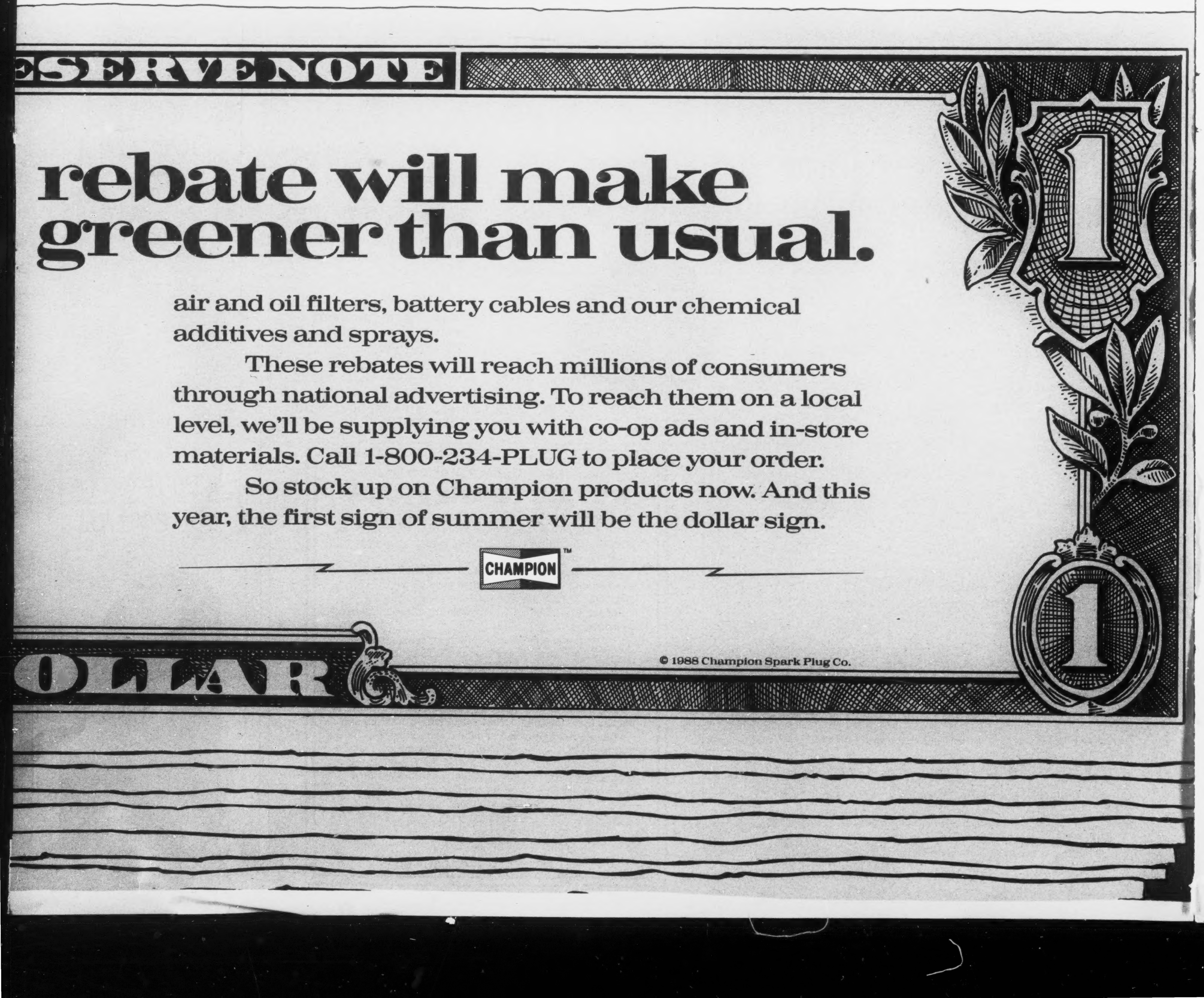
Also, since the brunt of most of the increases will not be felt until 1989, the dampening effect on 1988 sales should be minor.

Future Sales

The most important issue in discussing future sales appears to be the increasingly competitive promotional ability of the mass merchandiser. More than ever before, discounters are giving a wide range of sporting goods consumers what they're looking for. Today, that means sharp prices, wide selection and a focused, regionalized assortment, and discounters seem to be getting better and better at providing those qualities.

$ Rank	Item	Unit Movement	Average $ Retail	Total $ Movement
	FIREARMS			
1	Marlin Rifle w/Scope - #60S	17,500	79.99	1,399,825
2	Ruger 22-cal Rifle - 10/22	9,000	119.99	1,079,910
3	Remington 870 Express Shotgun	5,200	179.99	935,948
4	Marlin Lever Action Rifle - 336CS	4,000	199.99	799,960
5	US Repeating 12-ga Shotgun - G120385A	2,000	179.99	359,980
6	CUA Single Shot	5,000	65.99	329,950
7	Marlin 22-cal Rifle - 25S	4,000	79.99	319,960
8	US Repeating 12-ga Winchoke - G1203RC	700	199.99	139,993
9	Taurus 9-mm Pistol	525	249.99	131,245
10	Taurus Model 66 Pistol	500	159.99	79,995
	FISHING			
1	South Bend Spincast Kit - C105	85,700	9.99	856,143
2	Zebco Spincast Kit - 1245	52,000	14.99	779,480
3	South Bend Deluxe Tackle Kit - Kit 90	97,500	7.99	779,025
4	Zebco Spincast Reel 33	45,000	14.99	674,550
5	South Bend Spinning Kit - C305	65,000	9.99	649,350
6	Zebco 33/South Bend Spincast Combo	25,700	21.99	565,143
7	Johnson Crappie Pro Combo	24,200	19.99	483,758
8	Zebco Snoopy/Mickey Spincast Kit	35,500	12.99	461,145
9	Plano Phantom Tackle Box - 1464	23,000	17.99	413,770
10	Normark Fillet Knife - BPFNF	45,200	8.99	406,348
11	Plano 3 Tray Tackle Box - 7300N	45,500	7.99	363,545
12	Mitchell Spin Reel - 300A	16,500	21.99	362,835
13	Ryobi V-Mag 3 Casting Reel	14,500	24.99	362,355
14	Johnson Crappie Pro Spincast Reel - 230CP	21,000	14.99	314,790
15	Ryobi Saltwater Combo SX4	12,500	24.99	312,375
16	Zebco Classic Spin Reel	14,000	21.99	307,860
17	Daiwa AGS88/South Bend Spincast Combo	18,500	12.99	240,315
18	Daiwa Spin Kit - J1350	11,500	19.99	229,885
19	Johnson Century Spincast Reel - 235CP	17,500	12.99	227,325
20	Daiwa Jupiter Series Rod - 1400	17,000	9.99	169,830

Source: Maurice Sporting Goods, Chicago, for calendar 1987. Maurice supplies 25,000 sporting goods outlets, 72% of them discount stores, in 45 states.



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Office Products Megastores Creating New Specialty Niche

(Continued from page 1)

dium-sized businesses relocating away from metropolitan areas; retailers' infatuation with specialty retailing; and the change from a two-step to a one-step distribution system that has allowed retailers to squeeze out more profits for themselves while delivering products at discount prices.

"People have begun to recognize the potential of this new business," said one industry observer, adding that it is "a special entity that has found a way to milk costs out of distribution and be profitable."

In an industry that didn't exist two years ago, there are currently 11 discount office products companies operating stores in at least 10 states.

Staples, Newton, Mass., was the first to hit the market. It debuted in May 1986 and now has 11 stores. By the end of April, Staples will be a 16-unit chain, and by year-end, 24 Staples stores will be open.

The list of players is growing rapidly. Discounters K mart and the G.C. Murphy division of Ames Department Stores recently announced their entrances into this field under the names Office Square and Office Shop Warehouse, respectively.

In recent weeks, discount office products stores have opened in Chicago, Pittsburgh and New York City. Before long, units will open in Charlotte, Va., Dallas, Minneapolis, Cleveland and St. Louis.

Other discount office supply stores, also known as "megastores" for their comparatively large size compared to traditional office supply stores, include: Office World, Great Neck, N.Y.; Office Depot, Boca Raton, Fla.; Office America, Richmond, Va.; Office Club, Concord, Calif.; Bizmart, Arlington, Texas; Office Station, Dallas; Office Max, Cleveland; and WORKplace, St. Petersburg, Fla.

Deep discount office products stores furnish customers with a wide array of office products from paper to facsimile machines at prices discounted up to 75 percent. Products are sold in bulk or single packages from steel racks or traditional gondolas.

Mainly, the stores are located in suburban areas and service small and mid-sized businesses, home office customers and consumers.

In general, the megastores range from 13,000 square feet to 20,000 square feet and offer between 2,000 and 7,000 sku's. The merchandise ranges from typical office products such as paper and paper clips to computer-related merchandise like diskettes. Some carry office furniture. Services such as delivery, special orders, catalog shopping, copying and printing are available for an additional fee so as not to affect the everyday low pricing structure.

While some office supply retailers may call themselves "no frills" operators, the label describes the in-store presentation more than the offering of services. But even that has changed as more companies enter the field and adjust their product mix and services to accommodate customers.

Staples is now testing a catalog phone order and delivery service at its West Springfield, Mass., store. And under a special licensing agreement with Egghead Discount Software, a Bothell, Wash.-based software retailer, 1,500-square-foot computer software departments are being added to many Staples stores. The first of these is in Staples' Weymouth, Mass., store.

Staples executives are so confident in this new retailing form that they are planning to take the two-year-old company public next year, said Todd Krasnow, vice president of marketing.

So far the growth of office products stores has been unimpeded by competition. But within the next 12 to 18 months, all that will change, observed Sid Doolittle, a partner in the Chicago retail consulting firm of McMillan and Doolittle. The top 150 markets can support four such units, Doolittle said, estimating that in the next five to seven years, about 600 deep discount office supply stores should be operating in this country.

Perhaps the first example of head-to-head competition will be in Chicago next year. Office World, which just opened its first store in Lombard, Ill., a Chicago suburb, will face Staples when the industry pioneer enters the Windy City.

"We will be a national chain of stores starting with Chicago," said Office World president Stephen Appel.

Appel feels the burgeoning office supply business will take 50 percent of the total office products business in the next five years because "people want to save money and are willing to inconvenience themselves to do it."

CD Sells U.S. Catalog Division to Asian Electronics Vendor

(Continued from page 1)

Semi-Tech Microelectronics, listed on the Hong Kong Stock Exchange, has developed a close relationship with the Shenzhen Electronic Group, the largest consumer electronics manufacturer and trading company in China. SEG is a Semi-Tech shareholder and its chairman is a director of both Semi-Tech and International Semi-Tech.

Seiden said International Semi-Tech executives have expressed "a clear commitment" supporting CD's multifaceted rehabilitation plan. Its key steps are:

- Opening more Consumer Express stores, the company's new format (see *DSN*, Nov. 9, 1987, page 1) which feature self-service mass displays using warehouse-type fixturing except in the jewelry, photo and consumer electronics serviced departments.
- Adding POS equipment and other retail technology in traditional showrooms to keep the highest possible in-stock position. POS terminals are scheduled to be in all stores within 15 months, he said.

"Semi-Tech's technology and research and development background could be valuable to us and assist our program in the retail technology area," he said.

While the new parent is heavily involved in sourcing and distributing goods from the Orient, it is unlikely that the cataloger would become a major outlet for this merchandise, he added.

CD, like other catalogers, plays up brands in CE, photo, and small appliances, three key traffic-pulling categories. International Semi-Tech doesn't supply name brands in these areas, Seiden acknowledged "so the opportunities for us to buy this merchandise [from International Semi-Tech] are limited."

However, he added the cataloger would consider buying merchandise from its new parent "on its merits: If the products are timely, the price and quality are right and a consistent supply is available."

Semi-Tech (Far East) will use its own funds and bank debt to buy CD, said Bob Day, International Semi-Tech's director of administration. While the company plans to supply the retailer with merchandise sourced from China and other Far Eastern countries, the categories and assortment in the stores wouldn't be substantially altered, nor would their management, headed by Seiden, be changed, he said.

The company is purchasing the American cataloger's assets at net book value, estimated to be about $100 million, and is assuming $40 million in liabilities, mainly the cataloger's accounts payable. CD (Canada) will get the difference between the two figures, expected to be about $60 milllion—$50 million in cash and $10 million in redeemable preferred International Semi-Tech stock.

Besides selling CD (U.S.), which broke even on $280 million in sales last year, Provigo plans to turn CD (Canada) and its subsidiary Toy City toy chain into franchised operations, similar to its Canadian franchised supermarkets.

Eight Canadian CDs and one Toy City store have already been franchised, with sales in the showrooms running 15 percent to 20 percent higher than when the units were owned by the company, said Craig L. Judson, Provigo's vice president, finance.

The sales agreement also provides for International Semi-Tech and Provigo to "cooperate closely for the development of supply sources" in China for Provigo's supermarkets and CD (Canada).

James Ting, International Semi-Tech's president and ceo, said acquiring CD was "consistent with International Semi-Tech's objective to broaden its revenue base and to capitalize on its long-term relationship with the People's Republic of China."

Pierre Lortie, Provigo chairman and ceo, said "the association with a company that has close working and financial relationships with the largest consumer electronics manufacturer and trading company in the People's Republic of China opens promising procurement opportunities and, in view of the evolution of the world economy, is of significant value."

Provigo sold CD (U.S.) because "it wasn't 100 percent happy with its performance," and because "it didn't measure up to our standards in areas like return on investment," Judson said.

The American cataloger's break-even performance on $280 million in sales last year compared with $327.7 million in volume and a profit of $780,000 in the previous year.

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Vol. 27, No. 8 April 11, 1988

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The RoughCut is the first double lock-back knife to combine in one unit a razor sharp serrated-tooth blade with a regular straight edge blade. The result is a knife with incredible versatility that appeals to everyone—from hunters and paramedics to cowboys and campers. No matter what the task at hand—whether it's cutting Romex wire, slicing nylon or hemp rope, trimming PVC pipe, or field dressing game—RoughCut easily cuts it down to size.

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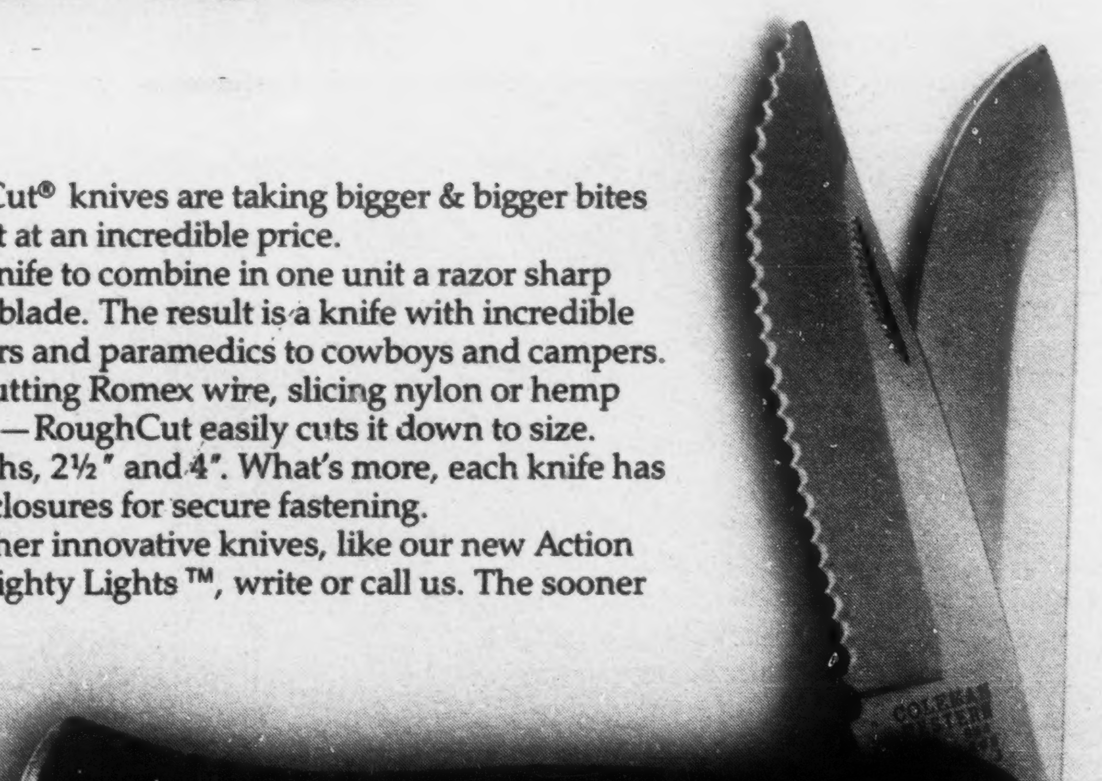

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VOL. 27, NO. 9

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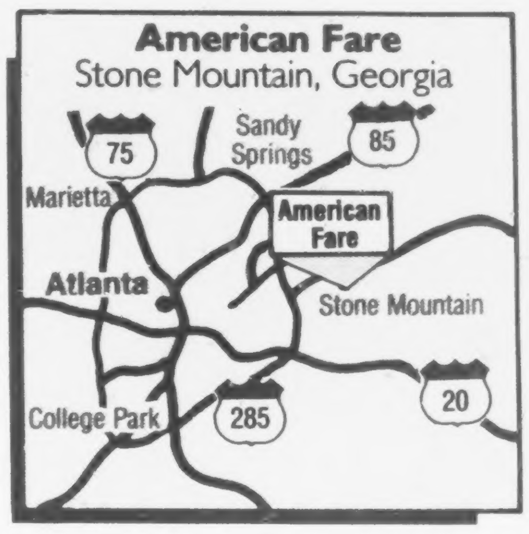
April 25, 1988

American Fare Hypermarket Eyes Year-End Debut in Atlanta Suburb



TROY, Mich. — American Fare, K mart's foray into hypermarket retailing, will be located in Stone Mountain, Georgia, a suburb just east of Atlanta, according to company officials.

K mart projects $90 million in first-year sales for the 240,000-square-foot hypermarket, a conservative figure considering that Wal-Mart's Hypermart USA in Dallas is currently on course to reach its target of $100 million in first-year sales.

"We are hoping for a late 1988 opening," said the spokesman, but he added that "it [the opening] could be after the first of the year."

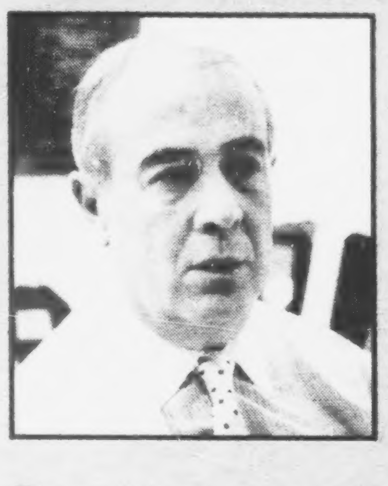
The spokesman said the store—which will include a typical hypermarket mix of food, apparel and general merchandise—will have approximately 60 registers. The exact percentage mix of the various merchandise categories is, however, "still on the drawing board," according to the spokesman.

He added that the hypermarket is expected to draw shopper traffic from an area up to 30-minutes drive away, and that the target customer is "typical middle America, 25 to 55 years old."

Jim Glime is chief executive officer of American Fare. Glime had been reporting to Fred Stevens, K mart's executive vice president of

(Continued on page 29)

Stevens Quits K mart To Head Fred Meyer



TROY, Mich. — In a move that took K mart officials by surprise, Frederick M. Stevens, executive vice president of specialty retailing and a K mart board director, resigned to join Fred Meyer Inc. as chief executive officer and chairman of the board.

Stevens' resignation was effective April 6, according to a terse one-page K mart release. A spokesman at Fred Meyer said Stevens was approved by the board at a meeting April 12 and started on his new job a day later. A replacement at K mart has not yet been named, but a spokesman said that a successor to Stevens might be chosen later this month.

(Continued on page 10)

Ames' Office Shop Warehouse Spearheads Specialty Focus

Ames president Peter Hollis (right) and Murphy's chief Jim McKitrick tour Office Shop, Ames' new specialty concept. (DSN photo)

By Peter Hisey

MONROEVILLE, Pa. — Ames Department Stores' first Office Shop Warehouse, which opened here late last month, offers a clue to where the $2-billion-plus discounter is headed in the '90s: modern, upscale and focused concepts.

The opening, attended by most of Ames' management team, was also the first high-profile demonstration of the importance of the company's recently acquired G.C. Murphy division, which Ames president Peter Hollis has called a "test lab" for new and innovative retail concepts.

The division, headed by president Jim McKitrick, will focus on variety store and specialty operations. Hollis noted that Office Shop is only the first of many concepts the company is developing. Office Shop is a hybrid—part warehouse and part stationery store. "We're looking for a blend of wholesale and retail," he said. "It's a little bit tricky, but I think we've captured it."

"It's a four-pronged attack," said Murphy senior vice president James Brainerd. "We're after four separate customers, and we've tailored our mix to appeal to all of them." The four, in order of importance, are small businesses, home office consumers, large commercial clients and walk-in trade.

The 15,000-square-foot store crosses the warehouse look with a more traditional discount store sensibility.

Extra wide aisles, warehouse shelving and bulk quantity packaging are typical of warehouses, but finished floors, fashion merchandising and clean, bright lighting are

(Continued on page 10)

Intensifies Commitment to Discounters

Manhattan Launches Ladies' Line

By Kenneth M. Chanko

NEW YORK — Following its successful introduction of the Manhattan men's apparel brand to the discount market, Manhattan Industries is launching Lady Manhattan — targeted to the discount customer—for holiday '88.

With this move, Manhattan Industries, the large apparel manufacturer based here, has intensified its commitment to the discount store business.

Manhattan, which was recently acquired by Salant Corp., another apparel manufacturer based here, has lined up three new licensees—About Sportswear and Land 'N Sea, both of New York, and Neuville Industries, New York and Hickory, N.C.—to manufacture Lady Manhattan products in a variety of categories, with price points aimed at discounters and national chains.

This latest entry marks a continuing trend that has seen major manufacturers reposition their well known name brands. In addition to Manhattan men's and now Lady Manhattan, McGregor and Campus recently pulled out of the department and specialty store business and are now selling those brands exclusively to mass merchants.

Fred Rothstein, president of Manhattan International, told *DSN* that he expects Lady Manhattan to do $50 million in sales its first year.

Rothstein pointed out that while Manhattan has competition from McGregor and Campus in men's wear, Lady Manhattan should have relatively clear sailing.

"There's really nobody else out there in terms of other recognizable women's brand names in apparel," said Rothstein. "Campus and McGregor are basically just men's wear."

About Sportswear will manufacture Lady Manhattan skirts, pants and other women's sportswear items. Land 'N Sea will have Lady Manhattan knit and woven shirts, blouses and other tops in junior, missy, petite and plus sizes, as well as activewear and maternity. And Neuville will manufacture casual socks.

(Continued on page 14)

Jewelcor Showrooms Face Hazy Future After LBO

By Arthur Markowitz

WILKES-BARRE, Pa. — Jewelcor president Seymour Holtzman bested his boyhood friend, company chairman Frank Cuscela, in a $62 million buyout battle for the diversified $250 million retailer.

Holtzman's successful offer leaves unsettled the future of the Jewelcor catalog division, Jewelcor's core business, which in the past accounted for over half the firm's sales.

Joseph H. Litchman, senior vice president and chief financial officer, said the company wouldn't comment on trade speculation that parts of Jewelcor Inc. would be spun off to help fund the buyout. "Everything will be studied and evaluated," he said.

He added that it was business as usual at Jewelcor and no changes in managment were anticipated. "But I can't comment on the Cuscela situation," he said.

Holtzman's corporation, S.H. Holdings, signed a definitive agreement with Jewelcor to acquire the company in a leveraged buyout at $19 a share, or about $62.7 million, for the approximately 3.3 million shares outstanding.

(Continued on page 29)

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MARKETWATCH

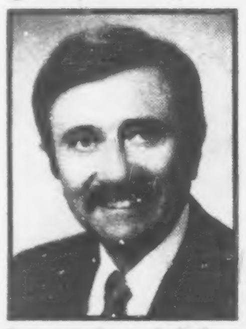
Wal-Mart to Sell Arts & Crafts Chain

IRVING, Texas — Wal-Mart reached an agreement with Michaels Stores here to sell its Helen's Arts & Crafts stores division for an undisclosed price. According to the agreement, Michaels will acquire the three-store chain in a cash transaction on April 30. The transaction is subject to the execution of a definite agreement, customary closing conditions and third-party consents. In a speech to retail analysts last fall, former Wal-Mart chief financial officer Jack Shewmaker tipped off the possible disposition of the arts and crafts chain while noting that Wal-Mart intended to devote its attention to other vehicles with more growth potential, such as its wholesale clubs and hypermarkets.

K mart to Open DC in Dallas Trade Area

TROY, Mich. — K mart reported recently that it will open a 500,000-square-foot distribution center and warehouse in the Foreign Trade Zone on the perimeter of the Dallas/Fort Worth Airport. The Foreign Trade Zone is a duty-free industrial complex. The facility, which should begin construction in June and open by early 1989, can be expanded by 200,000 square feet, a spokeswoman said. The facility will be used for K mart's import division.

Jack Shewmaker Named to Vons Board



EL MONTE, Calif. — Jack Shewmaker, former vice chairman and chief financial officer of Wal-Mart Stores, has been named to the board of directors of Vons grocery company. The 193-store Southern California chain said Shewmaker's retail and supermarket experience will be an additional asset to Vons' board. Although Shewmaker remains on Wal-Mart's board of directors, he announced his retirement from the Bentonville, Ark.-based discounter on Feb. 1.

ShopKo Joins Billion Dollar Sales Club

MINNEAPOLIS—ShopKo reached the $1 billion sales mark in fiscal 1987 for the first time, contributing to parent company Super Valu's sales total of $9.4 billion for the year ended Feb. 27, 1988. Mike Wright, chairman and chief executive officer of Super Valu, said ShopKo's performance was "phenomenal." During the year, the discounter added 10 sites, bringing it to a total of 75 units. ShopKo plans 12 more stores this year. Companywide results for the predominately food operator showed Super Valu's earnings increased 25 percent to $111.8 million as sales increased 3.4 percent. In the fourth quarter sales decreased slightly to $2.24 billion compared to $2.27 billion in the same period last year, but the company pointed out that there was an extra week in last year's fourth quarter. Earnings for the period grew 11.1 percent to $31.5 million.

'Undervalued' Zayre Stock Rises

FRAMINGHAM, Mass. — Zayre Corp. stock has been climbing amid speculation that real estate developer Edward J. DeBartolo Jr., who owns a sizable but undisclosed stake in Zayre, is pressuring management to take steps to maximize shareholder value. Industry speculation has the Zayre board possibly repurchasing shares to fend off raiders, which would include DeBartolo and the Bass family. A Zayre spokesman would not comment to *DSN* on any actions the board might take. According to a wire service report, a spokesman for DeBartolo said that Zayre Corp. stock is "extremely undervalued" and urged Zayre management to "take the bull by the horns" and begin steps to maximize shareholder value. Zayre closed up ¾ to 25¼ on April 14, with over 3 million shares traded on April 13 and 14. The DeBartolo spokesman said Zayre is worth at least $37 a share on fundamentals, but that the stock has been hurt by the poor performance of Zayre's general merchandise discount stores, which he called "a terrible drain" on earnings. Zayre posted a $13.9 million operating loss in the year ended Jan. 31, 1988, compared with a $129.9 operating profit the prior year.

Tuesday Morning Eyes Restructuring

DALLAS — Closeouter Tuesday Morning has hired Alex. Brown & Sons, an investment banking firm, to advise the retailer's board on "strategic alternatives to maximize shareholders value." These include a possible sale or merger of the 93-store chain with another company, buying another business, a buy-back of the $73 million retailer's stock, or a leveraged buyout by investors that could include current senior management.

FOR THE RECORD

A photograph on page 87 of the March 28 issue of *DSN* depicted a K mart book department. The caption incorrectly identified the department as a Readers Market format.

Andersons Parent Sells Fertilizer Biz To Fund Store Expansion Program

HOME DECOR
CUSTOMER SERVICE

In part to fund expansion, as at this Columbus, Ohio, unit, The Andersons sold its Greensweep lawn fertilizer line. (DSN photo)

MAUMEE, Ohio — In part to raise capital for store expansion, the parent company of The Andersons has sold its Greensweep hose-on lawn fertilizer line to the Monsanto Co. for an undisclosed sum.

The Andersons operates four stores in Ohio, two each in Columbus and Toledo, and one in Delphi, Ind. On Sept. 1, it is set to open a sixth unit in Northwood, a Toledo suburb.

The Greensweep line generates revenues of $50 million for The Andersons Management Corporation, parent of The Andersons General Store chain, said Richard Raleigh, marketing manager for its lawn and garden division.

Monsanto is better financed to develop the potential of the Greensweep line, said Mary Collins, an Andersons spokeswoman, while The Andersons will use its resources and proceeds of the sale to focus on its core businesses: grain sales, agricultural products and fertilizer and retail operations.

The parent company will continue to produce private label granular lawn fertilizers for such retailers as K mart, Raleigh said. Of 1987 revenues of about $600 million, retail store sales totaled "in excess of $100 million," he said.

The Andersons hasn't settled on the number of stores it plans to build during the rest of the '80s, Raleigh said. For now, it is concentrating on developing the profit potential of existing units, he said.

In its new Toledo store, The Andersons is trying a new tack, serving as a mall anchor at the Woodville Mall, Collins said. The Andersons will test that new concept before setting its future expansion course, she said.

Despite their farm origins, The Andersons stores now derive 90 percent of their sales from urban customers, Collins said. All store departments offer do-it-yourself advice at service desks.

The Andersons is a privately-held company headed by Richard P. Anderson.

Dart Group Sets Sights on Woolworth

Retailer Swallows Poison-Pill Defense

NEW YORK — The Dart Group declines to comment on whether it intends to attempt a takeover of F.W. Woolworth, the sixth major retailer it has set its sights on in the three years since it sold its Dart discount drug chain.

Woolworth, which has diversified heavily into specialty retailing, ranging from Footlocker (shoes) to Champs (sporting goods), disclosed that Dart has filed for federal approval to buy as much as 15 percent of Woolworth.

In response, Woolworth adopted the same sort of poison-pill defense that helped foil Dart's efforts to take over Stop & Shop, Bradlees' parent. In the event of a hostile takeover, Woolworth stockholders would be given the right to buy stock at half price.

Dart, controlled by Herbert Haft and his son, Robert, lost a Stop & Shop takeover bid earlier this year when management took the company private in a $1.23 billion leveraged buyout.

Woolworth thus joins May Department Stores, Beatrice, Safeway, Supermarkets General, Dayton Hudson and Stop & Shop as Haft targets.

With the exception of a $67 million loss on Dayton Hudson stock following last October's market crash, the Hafts have made hundreds of millions on investing in the stock of target companies. Dart operates two discount chains, Trak Auto and Crown Books.

Following the usual pattern, Woolworth stock jumped about $9 a share to $54.13 April 4, the day it announced the Hafts' interest. The Hafts own less than 5 percent of the 64.3 million Woolworth shares outstanding. At that price, the market values Woolworth at $3.49 billion.

Woolworth announced sales of $7.13 billion in the year ended Jan. 31, 1988 and net income of $251 million. That compares with $6.5 billion and $214 million in 1987. Specialty retailing accounted for 53.2 percent of operating income in 1987. Woolworth has set a goal of 65 percent by 1991.

K mart Concludes Hamburger Test

CANTONVILLE TOWNSHIP, Mich. — Customers will be asking, "Where's the beef?" at the K mart store here in suburban Detroit.

Wendy's International this month closed its fast-food restaurant located in the K mart discount store here, shutting the door on a three-year test by the two companies.

K mart will convert the space back to unspecified general merchandise, according to a company spokeswoman. Neither K mart nor Wendy's could determine how many square feet would be returned to retail display space.

The restaurant was opened on Nov. 18, 1985. It was a one-store experiment that both retailers report was successful.

"We were satisfied from the results and learned what we wanted to learn from it," said Denny Lynch, vice president, communications at Wendy's, noting that the Dublin, Ohio-based restaurateur is turning its attention to introducing new products rather than establishing restaurants in non-traditional outlets. He did not rule out the possibility of establishing Wendy's restaurants at other retailers, including K mart, in the future.

The conclusion of the test comes on the heels of a similar arrangement between Sears and McDonald's.

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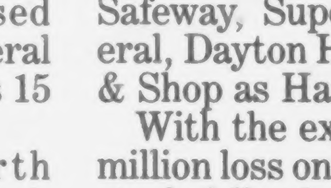

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Home Products

Electric Shavers Sharpen Approach to Women

Nationwide DSN Report

Technological advancements in personal shavers in addition to increased advertising schedules are expected to drive the sales of electric shavers this year and possibly sharpen the appeal of the category for discounters.

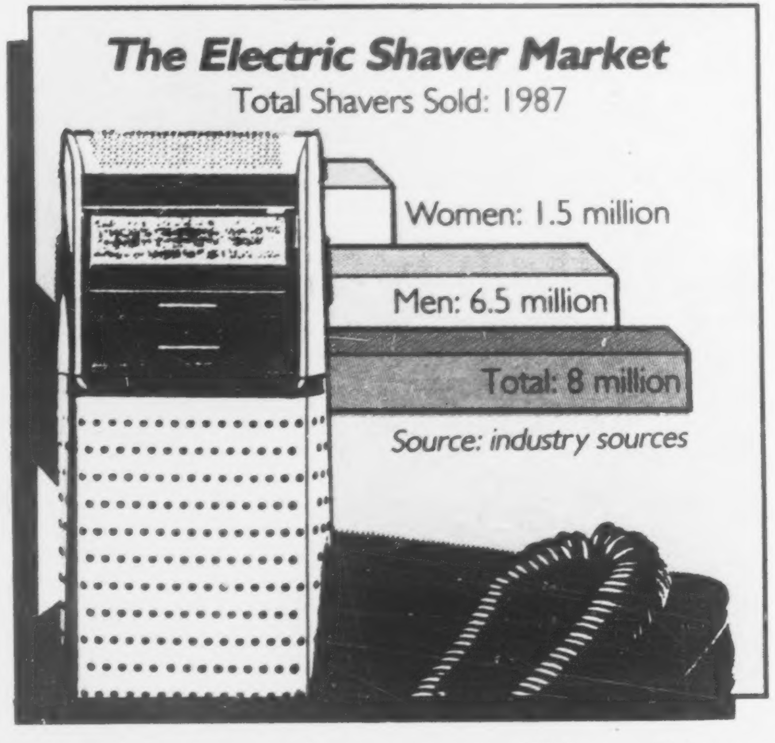
The effects could be most dramatic in the ladies' shaver business which has the most potential for growth.

Only about 5 percent of all women who shave use an electric shaver, sources said, compared to about 30 percent of men who use electric shavers some or part of the time.

Manufacturers are trying to elevate those percentages by introducing a host of new products which they claim will offer users not only a close shave without nicks and cuts, but also products that complement their lifestyle, such as rechargeables, battery-operated, wet/dry shavers and travel-size models.

Companies such as Braun, Norelco and Panasonic, three of the four largest manufacturers in this category, report they will advertise more heavily in 1988 than in 1987 to help broaden the appeal of their shavers.

What's unusual about the recent developments is, that while the ladies' shaver market is just a mere shadow of the men's market, manufacturers have developed new merchandise for both segments and plan to advertise them almost equally as part of their beefed-up national ad schedules.



But electric shavers—corded, rechargeables and battery-operated—are essentially a men's product business. Of the 8 million shavers sold last year, between 6.5 million and 7 million units were for men while only about 1 million to 1.5 million units were for women, according to industry sources.

Nationally, electric shaver sales are flat, but a few discounters reported sales increases last year, among them Price Savers Wholesale Warehouse Club and Allied Wholesale Distributors, operators of Key Catalog Showrooms.

In fact, shaver sales at these two companies rose 30 percent and 20 percent respectively, something the two operators attribute to increased store traffic, low prices and increased ad schedules by manufacturers.

Gross margins, however, in this category remain very low due to intense competition. Discounters tend to rely on accessories such as replacement heads and shaving cream to bolster profits.

Electric shavers are generally priced from $20 to $70 with the most popular price point at about $40, sources reported.

Shavers are essentially a December/May business, for Christmas and Mother's/Father's Day. And advertising is usually reserved for these two times of the year only.

The largest segment of the electric shaver market, about 65 percent last year, is in rechargeables, which are expected to total 70 percent of the shaver market this year. Discounters are hopeful that both the new products promised for this spring and fall and the beefed-up ad schedules lure consumers into making a purchase.

"I'll let my customers tell me how strong they [the new products] are," said Jim Loupe, buyer for Rochester, N.Y.-based The Present Co. "I'm a show-me person."

Loupe, however, like other discounters, will alter his shaver mix to reflect the new product introductions. When all the new shavers are released, The Present Co. will add two battery models and a wet/dry shaver to the three sku's it currently stocks in ladies models.

This fall, Key Catalog Showrooms will add two wet/dry shaver models by Panasonic, to accommodate consumer requests for the products, said Carl Sweat, vice president, merchandising.

But companies such as Chapin Inc., operators of Gibson Discount Centers, and Price Savers Wholesale Warehouse Club, will not alter their merchandise mixes a great deal, they reported.

Bob Nau, buyer for Chapin, said he will remain selling his one, corded sku in ladies' shavers and adjust his

(Continued on page 20)

Camera Vendors Turn to 'Tweens' For Profit Increases

Nationwide DSN Report

With margins on most photo products dropping, the battle to increase frame consumption, and thereby profits, has heated up.

The latest target is the youth of America. Or, more specifically, so-called "tweens," those between the ages of 8 and 14.

But, while manufacturers are producing a wave of products designed to appeal to the younger set, some discount store buyers are skeptical that the teenybopper market holds much potential for increased sales and profits.

"A lot of vendors are chasing very little business," said Dave Quillo, photo buyer for St. Louis-based discounter Grandpa Pigeon's, of manufacturers' efforts to cultivate the kiddie market.

Polaroid has come out swinging with its Cool Cam, a mid-price instant camera which it is marketing in pastel pink and blue, as well as red and black. What makes this product distinct from other Polaroid products in roughly the same price range is the way it's promoted; the company has tied in with MTV, the popular music video cable outlet, and its mall-roving Museum of Unnatural History.

DISC
DISC
Kodak Ektralite
Kodak Ektralite
LeClic
LeClic
Kodak disc 3600

Vendors and some buyers see cheaper cameras as a way to tap the teen market. (DSN photo)

Malls and MTV are potent vehicles for reaching the pre- and young-teen market. "Malls are the new backyard," said Rod King, Polaroid marketing manager. "Next to their homes, it's the place where young kids spend most of their time."

Operating on that theory, MTV (which already owns a healthy chunk of those kids' at-home time) put together its Museum project, a collection of rock 'n' roll memorabilia, videos and activities which tour the country's malls, not unlike a major rock and roll tour. "We even have Huey Lewis and the News' road crew handling the tour," said Bob Friedman, MTV Networks' vice president, promotion and marketing. "And we're promoting it just like a tour, with local radio and print involvement, as well as national and local MTV publicity." The museum is a blend of music, fashion, style, technology and video, and includes make-your-own video and music tracks, as well as performances by national acts and appearances by actors and other celebrities.

Polaroid will sponsor a booth in the New Music portion of the Museum, loaning out cameras and taking kids' pictures

(Continued on page 19)

MARKETWATCH

MOORESTOWN, N.J. — This year's **Juvenile Products Show**, held Nov. 13 to 16 at the Dallas Market Center's Apparel Mart, has been expanded to include juvenile-related items previously excluded. "We've added 30,000 square feet of space . . . so we've been able to relax some of the past restrictions on what could and could not be exhibited," said William MacMillan, exec director, Juvenile Products Manufacturers Assn.

* * *

CHICAGO — The **National Housewares Manufacturers Association** will be attending the International Housewares Fair in Tokyo, June 13 to 15, 1988. To date, 21 NHMA members will be part of the trade mission. Selfix, Regal Ware, Northern Electric and Wahl Clipper are among those which will be exhibiting. Revere and Mr. Coffee are two manufacturers visiting the convention as part of the trade mission.

* * *

SAN FRANCISCO — A new division for **home organization products** will be added to next year's San Francisco Gourmet Show. Starting in April 1989, the new home organization section will include vendors showing storage and home organization merchandise, such as wall grids, closet organizers, stackable containers, shelving, flip-top bins, storage cabinets, file drawers, modular units, baskets and utility racks. The San Francisco Gourmet Show, including Gourmet Products, In Style, and the Home Organization section, will be held April 23 to 26, 1989, at the Moscone Center. For information: George Little Management, 1902 Van Ness Avenue, San Francisco, Calif. 91409, or call (415) 474-2300.

* * *

DES MOINES, Iowa — Despite pressure from K mart and other retailers, manufacturers might want to think twice about eliminating **rebates**, a *Better Homes & Gardens* study released last month indicated. Nearly 65 percent of those responding to a subscriber survey said that rebates were either "extremely important or somewhat important" when deciding which brand of product to buy. One-fourth said they often wait for the manufacturer to resume a rebate program before buying a product, if they know the item usually carries a rebate. Regardless of the degree to which rebates influence purchase decisions, over 50 percent said they often do not actually redeem the rebate due to the mechanics of mailing in a rebate. Thirty-five percent said they are seldom or never discouraged and almost always take advantage of the rebate offer. B&D, Clairol, Toastmaster and other large manufacturers of kitchen and personal care small electric appliances have discontinued rebates due primarily to pressure from retailers, who have determined that the clerical work involved in keeping rebate coupons organized and available to the consumer costs them more than the additional sales rebates might generate.

Shop TV Adds Video Titles

LOS ANGELES — Add pre-recorded videocassettes to the products that the Shop Television Network features during the 30-minute Electronics Plus Video merchandising segments that are regularly broadcast by the teleshopper. STN, which is partly owned by J.C. Penney, features Paramount Home Video movies on the videocassettes program which airs twice a day. Other merchandise is shown on the other Electronics Plus Video segments.

Electric Shavers Sharpen Approach to Women

(Continued from page 17)

men's shaver line to reflect manufacturer model changes.

Price Savers doesn't stock ladies' shavers at all, except during the Christmas selling season when the retailer may increase its sku count, from the one, corded sku the chain normally carries, said Phil Sutterfield, vice president of merchandising.

In addition, the chain stocks no accessories, he said. But Sutterfield said he will look at the new technology and welcomes the increased advertising by manufacturers.

Discount stores constitute the largest retail segment for shaver manufacturers because of the broad customer base, followed by catalog showrooms and then drug store chains.

The biggest obstacle facing shaver manufacturers is convincing blade users that they can get a risk-free, close shave with the electric models.

"Shaving is something that is not fun for men or women. We offer something easier and less painful to use," said B.J. Cornstubble, president of the Dallas-based firm of Freedom Blade, manufacturer of rechargeable and battery-operated shavers using standard slide-on twin blades.

Unlike most shaver manufacturers, Freedom Blade offers one model for both men and women but in three colors.

Manufacturers such as Norelco and Braun and Panasonic all offer separate models for men and women.

Norelco, for example, which has long offered shavers to the female market, in corded and rechargeable models, will begin offering wet/dry models this summer to appeal to the large majority of women who shave in the shower, explained Bob Pape, general manager of the personal care group. And all seven of the men's models will be offered in Norelco's special lift and cut system.

Braun, which entered the U.S. shaver market two years ago, offers corded and rechargeables for a dry shave only since it perceives its greatest opportunity is in converting wet shavers to dry shavers, reported Richard Cantwell, marketing manager for Braun.

And Panasonic, which entered the rechargeable market in 1984, intends to continue developing the wet/dry shaving system to tap the huge segment of consumers who prefer a wet shave, said Bob Parson, general manager of personal care division.

A relatively new shaving system, Epilady USA, which is addressed to the female market, offers consumers an electric hair removal appliance that features rotating coils that remove hair at the root. The system, for use on legs and forearms exclusively, leaves skin smooth for three to four weeks on average.

MANUFACTURER NEWS

JAMESTOWN, N.Y. — Ready-to-assemble (RTA) furniture manufacturer, **Bush Industries**, declared a 3-for-2 stock split to shareholders of record on April 4. Shareholders will be paid a 50 percent stock dividend on Class A and Class B common stock on April 18, 1988. The manufacturer's net income rose 121 percent for the year ended Dec. 31, 1987. Net sales gained 43 percent over 1986 levels to $93.5 million.

SEYMOUR, Indiana — **Lear Siegler Seymour Corp.**, maker of ironing and other housewares products, said it has acquired Worldsbest Industries, manufacturer of juvenile safety products and laundry-aid items. Seymour bought Worldsbest from Sklar Industries. Seymour will market Worldsbest under the Lady Seymour name. Worldsbest president, James Glenn will stay with the company as a Seymour vice president.

LANCASTER, Ohio — **Anchor Hocking Glass Co.** has selected Cleveland-based Young-Liggett-Stashower as the public relations representative for its household product lines, including beverage, baking and serving pieces.

* * *

CORNING, N.Y. — **Corning Glass Works** was honored by Target Stores, thus receiving the 1987 Vendor Award of Excellence. The award was presented to the manufacturer by Target president, Robert Ulrich; senior vice president, general merchandise manager, Robert Geulich; merchandise manager John Tully; senior buyer, Robert Giampietro; and buyer Camille Thomas. Charles Peifer, Corning's vp, housewares sales, said the company had determined early in 1987 that it would do everything possible to excell in areas that Target used as yardsticks in selecting which vendor would be the award recipient.

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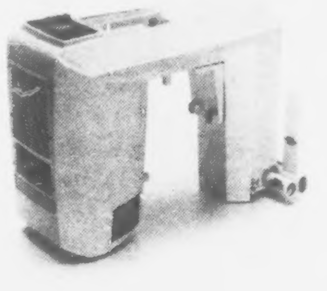
what's creating
all the stir.



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Attention: Sales Department

Ames Positions Bargain World For Growth in Urban Areas

(Continued from page 3)

"A lot of our customers shop once a day," said Murphy senior vice president, administration Jim Brainerd. "Therefore, we have to stock a mixture of everyday basics and convenience products."

In contrast to the usual discount "cheap and deep" approach, Bargain World has deliberately chosen a "cheap and shallow" concept for its apparel assortment. "We want our customers to see something new every day," Brainerd said.

Basics include paper towels (45 cents a roll), analgesics (at Murphy prices) and a wide variety of detergents and cleansers, while convenience products include sodas, milk, candy and often-used food items like spaghetti sauce and canned vegetables.

"Low-income, inner city customers have traditionally had to pay much more for basic products than suburban shoppers," Brainerd noted. "Since most retailers have left the inner city, remaining ones expect to be 'rewarded' for staying in the form of higher prices."

Ames and Murphy saw an opportunity there, and Bargain World was developed to appeal to lower-income markets. "We concentrate on most-wanted items at fair prices," Brainerd said. "Those are the items most often marked up at inner city stores."

The stores' large apparel departments feature closeout merchandise. "We could offer fantastic bargains on other products, but our customers couldn't afford them," Brainerd said.

Therefore, virtually everything in the store costs less than $10, and only a few products are priced at more than $15. Clothing is very basic, limited mainly to T-shirts and slacks. Women's and children's apparel makes up the majority of the selection.

In keeping with Bargain World's bare-bones image, each store can be run by as few as three employees and store fixturing is kept simple, basic and inexpensive. Most shelving was purchased from the same supplier that provides Ames' fixtures, guaranteeing a lower price.

"That's one advantage of having Ames behind us," Brainerd said. "It gives us buying clout that a new operation wouldn't have."

Bargain World also features a relatively extensive home furnishings department. The chain offers very inexpensive linoleum tiles, rugs, sheets, pillows, comforters and other furnishings. The accent is on fix-up type products designed to make homes habitable, not necessarily fashionable.

Murphy feels that Bargain World will fill a vacuum. "No one is aiming at this market," Brainerd said. "Consequently, the urban poor have been forced to spend far more than those better off for the necessities of life."

Murphy's president McKitrick noted that Bargain World was only one element of a "redefinition of the variety store" by the company. McKitrick and his management team are also refocusing the product mix at the G.C. Murphy variety stores. According to McKitrick, such "high-ticket, low-margin" items as cameras, watches, electronics and records will be dropped and more traditional product areas, like stationery and giftware, will be expanded.

Family Dollar Eyes Profits

(Continued from page 3)

Hard goods will be scrutinized for items that require narrow margins but do not contribute much to store traffic levels. No one category was singled out as having an inordinately high amount of these products, Mahoney said.

Like many discounters, Family Dollar has sold private label health and beauty aids, paint, motor oil, and other merchandise for years; recently the chain launched two, new private label goods that are likely to be just the start of an intensified campaign.

Private label photographic film and soft drinks are among the new products the chain has recently explored. Film was added during the first quarter of 1988 and private label cola was brought into stores about two weeks ago. Expansion of private label apparel and consumables are in the works, Mahoney said.

Two-zone pricing will be in place by the end of the company's fiscal year, Aug. 31. This strategy should boost gross profit margins by trimming prices only in markets that warrant cut backs. "Competition is obviously one of the primary factors of the zone pricing," said Mahoney.

Family Dollar reported a 22 percent sales jump to $178.9 million from $146.7 million for the second quarter ended Feb. 29, 1988. Net income rose by 14 percent to $9.3 million from $8.1 million.

For the six months ended Feb. 29, sales were up 19 percent to $325.4 million and net income was $14.0 million, up 2 percent from the same six-month period last year.

Strong sales performance only partly contributed to the higher net income. A sharply lower federal income tax rate contributed to an improved bottom line. The effective tax rate during the second quarter of 1988 was 38.2 percent compared to 46.3 percent.

The company bought back over 1 million of its shares of common stock at about $8.50 per share during the last quarter of 1987 due to what it believed was a depressed value of its stock.

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Vol. 27, No. 9 April 25, 1988

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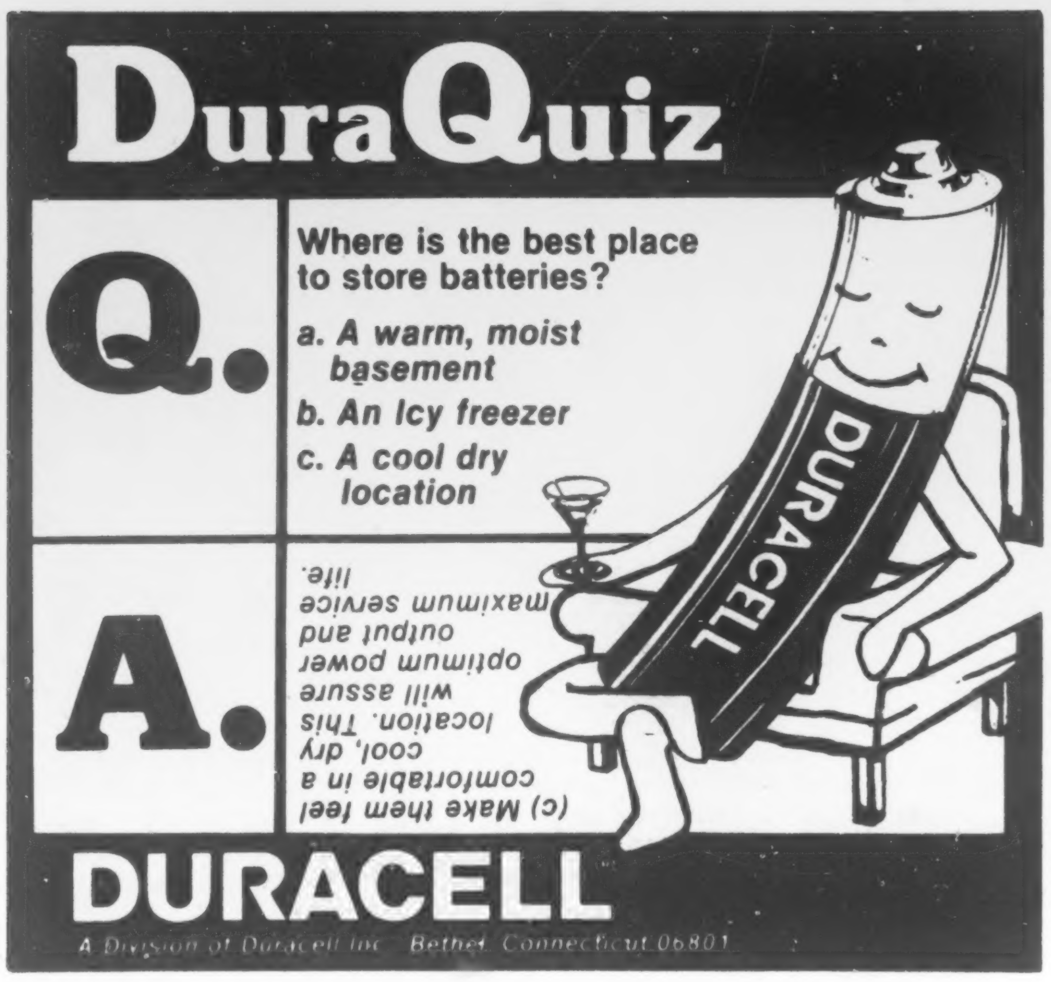
DuraQuiz

Q. Where is the best place to store batteries?
a. A warm, moist basement
b. An Icy freezer
c. A cool dry location

A. (c) Make them feel comfortable in a cool, dry location. This will assure optimum power output and maximum service life.

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Discount Store News®

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Sears to Battle CE Specialists With Stand-Alone Superstores

By Laura Liebeck

CHICAGO — Sears is taking on the appliance and consumer electronics superstores at their own game.

The retailer announced last month that it will create appliance and CE "superstore" departments and then spin off the concept into freestanding stores to compete with such specialty retailers as Silo, Luskins, Highland, and Circuit City. Sears also announced that it will create freestanding auto service centers.

The superstores will be fashioned much like the appliance and CE stores available now, offering many popular brands in addition to Sears' own labels. The stores will bear the Sears name.

"We will not permit the so-called superstore to usurp one of our strongest businesses," said Michael Bozic, chairman and chief executive officer of Sears merchandise group. "We will do whatever is necessary to strengthen our position as America's premier retailer of appliances and home entertainment products."

Bozic made his remarks to an audience of financial analysts who were assembled here following the retail giant's announcement that the company suffered a 37.7 percent decline in profits in the first quarter—from all segments except financial services.

While net income for the quarter fell

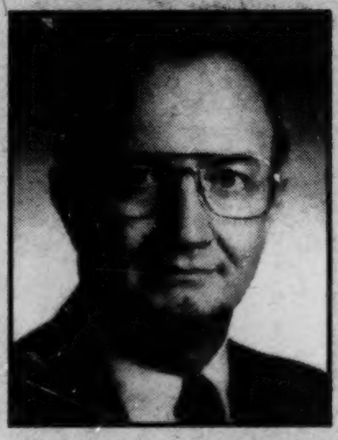
(Continued on page 118)

K mart Splits Specialty Divisions

Parkin to Oversee High-Growth Warehouses

By Kenneth M. Chanko

TROY, Mich. — K mart's $3 billion-plus specialty retailing division has split up into three separate entities in the wake of Frederick Stevens' departure as executive vice president of specialty retailing.



Larry M. Parkin

Larry Parkin, former executive vp for U.S. K mart Stores, has been named executive vp for warehouse and grocery operations. In the newly created post, Parkin will oversee the development of K mart's hypermarket venture, American Fare. He will also have responsibility for Makro, the five-unit warehouse club in which K mart recently bought a 51 percent stake, and Builders Square, the home center subsidiary through which two new specialty concepts—a sporting goods warehouse and an office supplies chain—are being developed.

Parkin, 53, will also remain a director of the company and will re-

(Continued on page 117)

Auto Buyers Cast Wary Eye on Antifreeze Shortage, Price Rise

By Richard C. Halverson
Nationwide DSN Report

Automotives buyers are far from panicking in the face of vendor warnings that they'd better order antifreeze now to ensure adequate supplies in the peak fall season and to beat still more price increases.

Instead, they appear to be discounting vendor talk of an antifreeze shortage and unwilling to order early to beat additional price increases—either already announced or widely expected by fall.

"I'm just listening to stories about shortages and price increases and not doing anything yet," said Nelson Phillips, buyer for Quality Farm & Fleet, the 47-store discount chain based in North Muskegon, Mich.

"Vendors are great about forecasting price increases that may or may not take place. The only thing I know for sure is that the plastic bottle that antifreeze comes in costs more because the resins cost more," he said.

Phillips said he will take a look at all suppliers by the end of May and decide then what he's willing to pay. However, he recognizes that an antifreeze shortage could develop.

"Nobody knows how the situation will shake out."

There is a worldwide shortage of ethylene, a basic raw material for ethylene glycol antifreeze. And manufactur-

(Continued on page 118)

Ethylene shortages are causing antifreeze prices to boil. Yet buyers aren't ordering early to beat further increases. (DSN photo)

IMRA Goes to Nashville

Country music may get the press, but retailing carries the tune in Nashville, a city of seeming contradictions: a Southern city with a Midwestern flavor; an understored market with fierce discounter competition; a city with a strong tourist trade yet dependent on printing, river trade and a wide variety of small businesses. As part of a preview of the International Mass Retail Association's 1988 convention, DSN explores discount retailing in Nashville. A look at convention activities, including a pull-out schedule, and other pre-convention coverage starts on page 47.

Antonini Reveals K mart's Vision: Be Most Efficient Retailer in U.S.

NEW YORK — New forms of retailing, extensive automation, and the physical presence of 128 million square feet of retail space are the blocks upon which chairman Joseph Antonini is building the K mart of the 1990s.

"The most successful retailers in the United States tomorrow will be the ones with the most-effective, low-cost base of operations in place," said Antonini to more than 140 analysts and reporters at a meeting sponsored by The New York Society of Security Analysts on April 28.

Antonini said that "K mart will have the most advanced, pro-active, complete 21st century data collection and communications system in the entire retail field." By 1990, each of the 2,200-plus K mart stores will be able to record every sale of every item each day and to transmit that data via satellite to the chain's Troy, Mich., headquarters.

Implementation of the chainwide point-of-sale system, along with a satellite communications network, will enable K mart to centralize merchandising functions at headquarters. Antonini said that hosiery recently was added to the centrally merchandised apparel system. The chain plans to soon add bed & bath and curtains & drapery to the apparel system, he said.

In the hard goods area, K mart headquarters this

(Continued on page 118)

Shewmaker Honored, Roasted

By Tony Lisanti

SPRINGFIELD, Mo. — Jack Shewmaker, who retired from his post as vice chairman and chief financial officer of Wal-Mart Stores in February, was honored by his peers at a gala dinner held here April 28 in the Howard Johnson Exposition Hall. The tribute, co-sponsored by Wal-Mart and Students In Free Enterprise (SIFE), attracted over 400 retail executives, friends and family. With his wife, Melba, at his side, Shewmaker was roasted by 12 of his business associates. Wal-Mart chairman Sam Walton,

(Continued on page 4)

Off-Price Chain Census

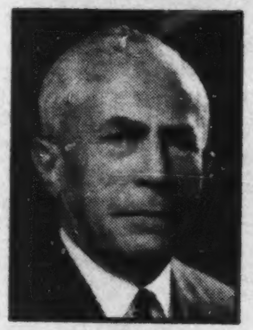
NHMA Housewares Study Results

'Hands-On' Works At Pep Boys

Factory Outlet Malls

MARKETWATCH

Max Feldberg, Was Co-founder of Zayre



FRAMINGHAM, MASS. — Max Feldberg, co-founder of Zayre, died at age 90 in Boston on April 26. Feldberg and his brother Morris, founded Zayre in 1956, with its first stores in Boston and Hyannis, Mass. Morris Feldberg died in 1969. Max Feldberg's son, Stanley, serves on the Zayre board as vice chairman of its executive committee, while his nephew, Sumner L. Feldberg (Morris Feldberg's son), serves on the board as chairman of its executive committee. Another family member, Sumner Feldberg's nephew, John Levy, is executive vice president of the Zayre Corp. and group executive for Zayre's BJ's Wholesale Club operation.

Moody's Cuts May's Debt Rating

NEW YORK — Moody's Investors Service cut the rating on May Department Stores' long-term debt, citing the increase in debt stemming from buying Foley's and Filene's from Federated Department Stores. The reduction affects $940 million in long-term debt of May, parent of Venture and Caldor. May bought the two chains from Federated for $1.5 billion and financed the entire package, Moody's said. The debt rating service predicted, however, that May "will be able to increase profitability" from its latest acquisitions, thanks to experienced management and further overhead and buying economies.

Bradlees Opens 1st Unit In Cape Cod

FALMOUTH, Mass. — Bradlees, the Braintree, Mass.-based discounter, opened its first store of 1988 in this Cape Cod market last month. Future expansion plans have not been disclosed. The store, a new company prototype, features 62,200 square feet, compared to the previous 53,00-square-foot Bradlees unit. Located in the Falmouth Mall, Bradlees is offering a merchandise mix that caters to the lifestyles and tastes of the Cape Cod community. For example, the merchandise assortment features more resort-oriented merchandise such as casual clothing and patio furnishings than the typical Bradlees location, according to a company spokeswoman. Bradlees operates 168 discount department stores in 10 states in the East.

Costco Pulls Out of Midwest Markets

KIRKLAND, Wash. — Costco Wholesale has announced it is pulling completely out of the Midwest market with the closing of two warehouses in Minneapolis and one site in Milwaukee. Costco said it had been in the Midwest for 18 months, but all three warehouses have been unprofitable since their openings and will be closed by early May. The company estimates the closing costs will not exceed $5.5 million and will be included in results for Costco's third quarter, which ended May 8. The membership warehouse club said it will be left with 40 locations and from this base it intends to expand primarily in existing markets during the remainder of the calendar year. The company said it will open 16 to 20 locations during the year, including one entry into Honolulu—a new market for Costco.

Wholesale Club Plans Midwest Expansion

INDIANAPOLIS — At the same time that Costco is pulling out of the Midwest, another membership warehouse club is expanding there. The Wholesale Club, based here, announced it signed a development agreement for a new cash-and-carry warehouse in Canton, Ohio. The 103,000-square-foot store scheduled to open in late summer will be the chain's 17th unit and seventh in the state of Ohio. Last month, The Wholesale Club opened its third Indianapolis area warehouse. "We continue to be pleased with the performance of all 16 warehouses," said John Geisse, chairman. "We've found the upper Midwest receptive to the wholesale club concept and we are committed to stay in these locations. Other Wholesale Club units are located in Wisconsin and Minnesota.

All American SportsClub Closes 2 Units

LOS ANGELES — Following on the heels of a Chapter 11 bankruptcy filing in late February, All American SportsClub has closed two of its eight locations. Sites in Burbank and San Mateo—in Southern and Northern California respectively—were closed on April 10. When the chain filed bankruptcy, there was no mention made of closing any stores, however SportsClub said at the time it would try to stabilize the firm while paying off vendors.

Zayre Adopts Shareholder Rights Plan

FRAMINGHAM, Mass. — Zayre Corp., the subject of takeover speculation for months, last month adopted a new shareholder rights plan providing additional protection against "abusive takeover tactics," such as partial tender offers and selective open market purchases.

Nichols, Heck's & Dart Group Hit BizWeek's Undervalued Stock List

NEW YORK — Heck's, S.E. Nichols and the Dart Group all made *Business Week's* 1988 list of the market's 200 most undervalued stocks—making at least the first two possible takeover targets.

Heck's, now in Chapter 11 bankruptcy, ranks No. 23, and Nichols, which recently announced plans to raise additional capital, ranks No. 33. Dart Group, a frequent raider of such companies as Stop & Shop, Bradlees' parent, and operator of Crown Books and Trak Auto, ranks No. 42 out of 200.

In its annual ranking, published in its April 15 issue, *Business Week* compared the market value of the company's stock as a percentage of its book value.

On that basis, the $14 million market value of Heck's stock represents 45 percent of book value. Nichols' market value of $28 million equals 54 percent of book. The market values Dart, whose class B voting stock is controlled by the Haft family, at $129 million, equal to 58 percent of book.

Perceived "value" of stocks is propelling the "new wave of takeovers," the business magazine said.

As its 1987 list of undervalued stocks suggested, severe undervaluation "is tracked as an indicator of susceptibility to takeover or buyout," *Business Week* said.

"Some 14 companies on it have merged, been taken private or are currently in play," the magazine said.

Among the top 200 merger or leveraged buyout deals of 1987, *Business Week* listed two involving companies that Dart attempted to raid, Southland Corp. and Supermarkets General. Both went private to escape the grasp of Herbert Haft and his son, Robert, who tightly control the Dart Group. Southland's $4 billion LBO ranked No. 2; Supermarkets General's $1.8 billion LBO ranked No. 12.

(The $1.3 billion LBO that Bradlees' parent, Stop & Shop engineered to avoid Dart's clutches earlier this year promises to be one of the top deals in 1988.)

On the other end of the scale, the two largest discount retailers were high on *Business Week's* list of the top 1,000 corporations, in terms of each company's market value.

Wal-Mart ranked No. 15, with stock value of $16.8 billion, sales of $15.96 billion and profits of $627.6 million. K mart came in at No. 54; stock value, $7.38 billion, sales of $25.96 billion, profits, $692.2 million. Specialty discounter Toys "R" Us ranked No. 115; value, $4.54 billion, sales of $3.14 billion, profits, $203.9 million.

On a list of the top 25 corporate executives to keep an eye on, *Business Week* ranked one discounter, K mart chairman Joseph Antonini. His challenge: "Keep the mammoth chain growing."

Revco D.S. Nears Completion of Deal To Sell Troubled Odd-Lot Subsidiary

TWINSBURG, Ohio — Revco D.S. announced that it is negotiating with a potential buyer for its troubled Odd-Lot Trading subsidiary and expects to close a deal by the end of June.

Odd-Lot, Elizabeth, N.J., has shrunk to 104 stores from a high of 153 stores in 1986. Sales totaled an estimated $200 million in 1985, but a Revco spokeswoman said no recent sales figures are readily available. The spokeswoman declined to name the potential buyer or even say whether it is another retailer.

Revco said the Odd-Lot sale, along with those of other operations, are part of an overall restructuring to cut debt acquired when the drug chain went private in December 1986. The company then announced it would divest all non-drug related operations.

Earlier this year, Odd-Lot closed all 25 of its stores in Michigan. And it has pulled out of Ohio and Florida.

It currently operates 51 stores in New York, 25 in New Jersey, 13 in Connecticut, 10 in Pennsylvania and five stores in Connecticut.

Odd-Lot overextended itself geographically, said a New York-based broker of closeout goods. "There are only so many closeout goods available," he said.

A competitor, Consolidated Stores, Columbus, Ohio, can operate more than 300 closeout stores in 11 states because it swings a "two-edged sword:" it operates both wholesale and retail. With its enormous buying power, Consolidated can buy large quantities and wholesale what is surplus for its own stores, the broker said.

Even so, Consolidated encountered a setback last year when it opened so many stores that it ran short of closeout goods and customers stopped coming in (see story, page 20).

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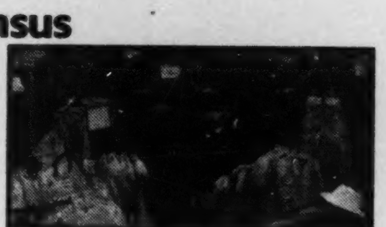

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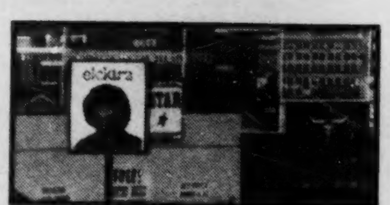

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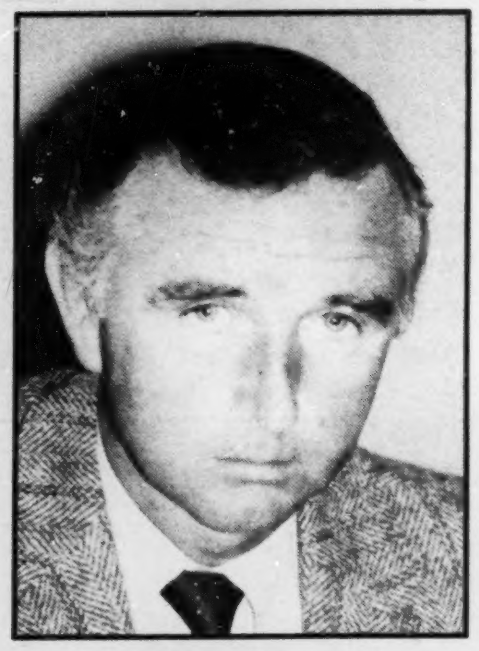
Yellow Front Incorporates Bonanza; Seeks Diversity

By Pamela Krein



Sean Lee

PHOENIX, Ariz. — Yellow Front, the 170-unit discount and variety chain here, will absorb its 64 recently-acquired Bonanza stores this month during a grand opening event.

The retailer, which is reworking its product mix and advertising approach, is also looking to diversify into specialty concepts, including crafts and apparel operations, said president Sean Lee.

Yellow Front, with most of its stores in the Southwest, acquired Bonanza last year for an undisclosed amount. The 64 stores which it took control of in December expanded Yellow Front's presence into markets as far north as Washington state.

(Continued on page 117)

Pep Boys Heads Out From Atlanta Expansion Hub: To Re-Enter N.C.

By Richard C. Halverson

PHILADELPHIA — In a major expansion move for 1988, Pep Boys—Manny, Moe & Jack, plans to re-enter the North Carolina market after an absence of nine years, *DSN* has learned.

In addition, the chain intends to add eight more stores this year in Atlanta, which it entered last September with four stores, pushing the store count in its Southern expansion hub to 15.

Looking ahead to 1989, Pep Boys plans to push north from its Dallas expansion hub and open four Oklahoma City stores in the first quarter, followed six months later by three in Tulsa, Texas.

Oklahoma City real estate records show that the Los Angeles real estate office of Pep Boys, which is handling the Oklahoma expansion, already has purchased two sites in the Oklahoma City area, one on Walker Avenue at I-240, next to a Builders Square home center unit, and another in the suburb of Midwest City.

Pep Boys also is looking at locations in the northwest and north central sections of Oklahoma City, a real estate broker said.

Pep Boys' real estate office in Atlanta is handling the North Carolina expansion, while its distribution center in Bridgeport, N.J., will supply the new stores, as it does the Atlanta units, sources within the company said.

Pep Boys apparently intends to open its first North Carolina units in Charlotte, which it left in 1979, during the second half of the year.

Thanks to banking deregulations, Charlotte has become a banking center for the entire Southeast.

Economic Perspectives, a market research firm in Delaware, Ohio, predicts in its "State & Metropolitan Retail Forecast," that through 1992 North Carolina will enjoy the highest retail sales growth of 19 states studied.

The higher retail growth rate will stem from both strong in-migration of population and a relatively low per capita retail sales level that leaves plenty of room to catch up with the rest of the nation, the research firm said.

(Continued on page 83)

Camera Technique Shows Cleveland Store in Makrocosm

CINCINNATI — Borrowing a technique used in the motion picture "Return of the Jedi," the advertising agency designing a campaign to introduce Makro to the Cleveland market, created a commercial that figuratively "flies" the viewer up and down the aisles of the cavernous membership warehouse store.

Makro, the European-style membership warehouse chain based here, opened its initial Cleveland store on May 4. But, to draw the large opening day crowds that the 150,000-square-foot units typically attract, Makro executives felt it necessary to differentiate their store from other types of warehouse clubs.

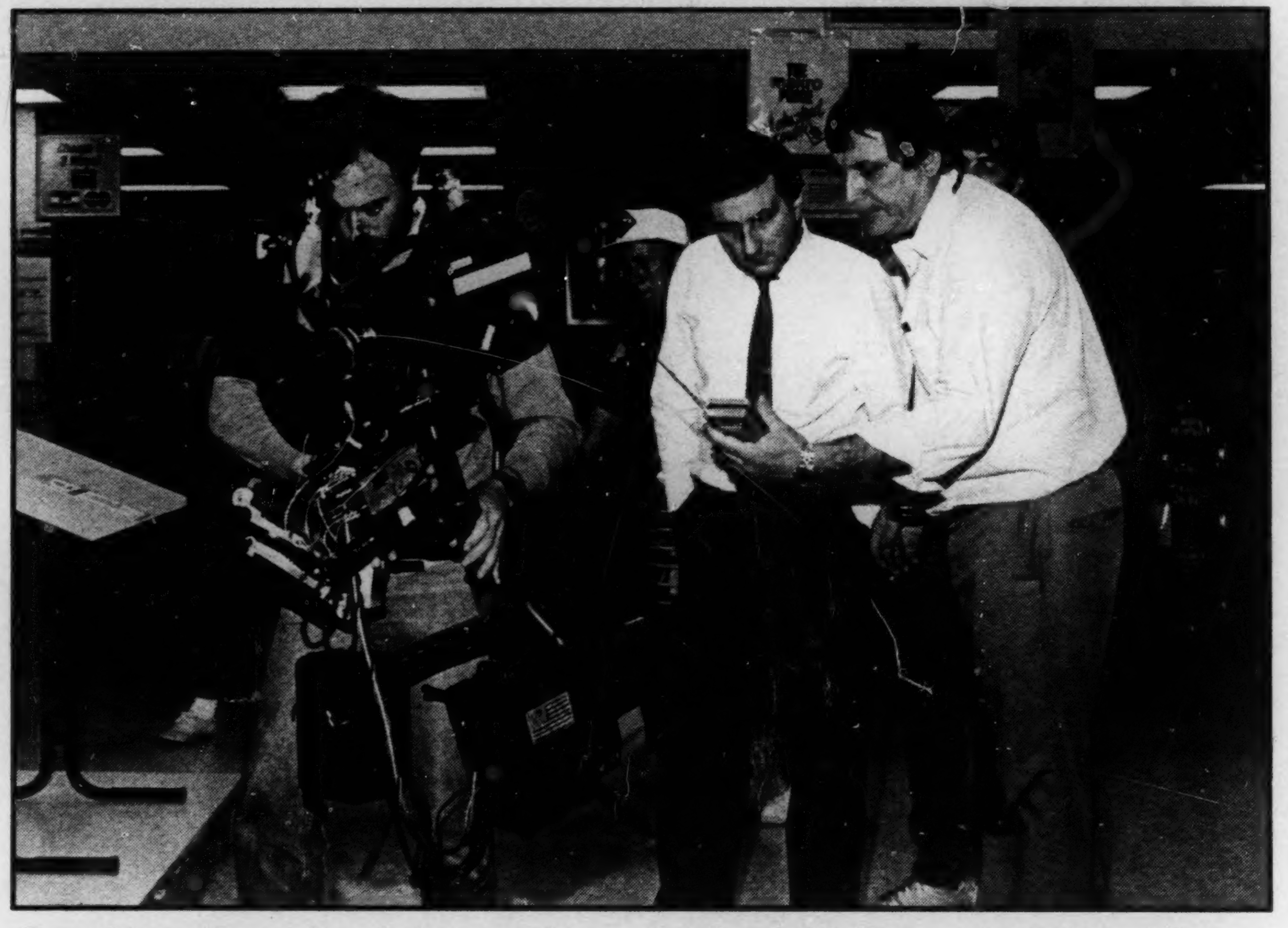
"Preparing to open our first store in Cleveland, we had to set our operation apart from the average warehouse club," said Greg Hanselman, vice president, sales promotion for Makro USA, which is 51 percent owned by discount giant K mart, and 49 percent owned by its Dutch parent, SHV Holdings. "We stock everything from fresh meats and produce to office supplies, garden tractors, crystal, fashions, and sporting goods. We had to convey this on the 19-inch screen in 30 seconds."

To illustrate "30,000 items in 30 seconds," Makro's advertising agency, Ehrlich Manes & Associates of Washington D.C., borrowed a camera technique first used in the "Star Wars" finale, "Return of the Jedi."

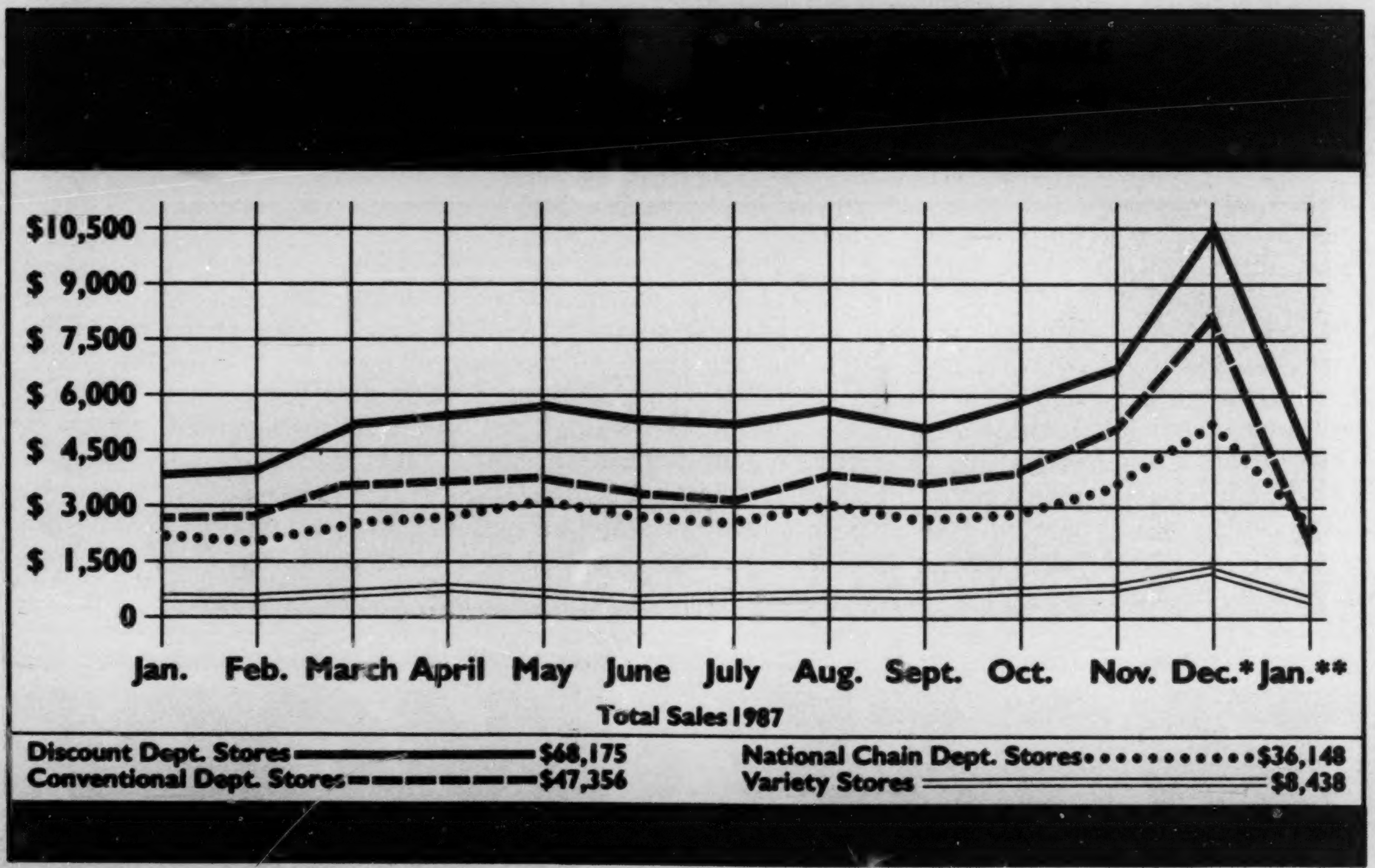
Producer/director Zoltan Toth of ZT and Associates used a wide angle lens on a 16mm motion picture camera that was mounted on a SteadyCam unit. Invented by Garrett Brown, a Philadelphia cameraman, the SteadyCam allows the director to make long tracking shots without having to construct tracks for a camera dolly. In the hit motion picture, the camera was used to film the breathtaking aerial chase through the oversized woods on the planet Endor.

In Makro's TV commercial, undercranking, or shooting at 12 frames per second rather than the normal 24

(Continued on page 118)



Greg Hanselman (center), vp, sales promotions, Makro, and producer/director Zoltan Toth (right) prepare for filming of '30,000 items in 30-seconds' TV ad.



Discounter Sales Rise 11.1% in Jan.

Nationwide DSN Report

Discount department store retailers sold 11.1 percent more merchandise in January than they did during the same month one year ago, according to the monthly retail trade report released last month by the U.S. Census Bureau. That increase outpaced by a wide margin the 3.4 percent total sales gain recorded by all retailers (excluding auto sales) in January.

Discounters sold an unadjusted $4.2 billion worth of merchandise during the first month of the year, compared to $3.8 billion a year ago. January 1988 sales were 60 percent below December 1987—the Christmas selling season.

January's sales declined so dramatically because the figures constitute raw data. There is not a seasonal adjustment factor for discount department stores which is used to smooth out the normal highs and lows in the retail sales calendar. A formula will not be applied for at least

(Continued on page 118)

Half-Pint Toy Giant Pursues Small Market Growth Plan

By Josephine Fiamingo

WAREHAM, Mass. — Tons of Toys, the 15-store specialty chain based here, announced plans to open three more stores in New England, continuing its strategy to pursue growth in secondary markets where competition is not as intense as in major cities.

Two stores will open this month in Milford and Marlboro, Mass., and its second Cape Cod toy store will debut in June in Falmouth, Mass.

In March, the growing chain opened a unit in Rockland, Maine, followed by a Nashua, N.H., store which opened April 16. An unspecified number of store openings are planned for this fall.

Mainly, expansion has been fueled by funds the toy chain obtained when it went public last May. Sales for the most recent eight month period between June, 1987 and Jan. 31, 1988, were $10.4 million.

The toy specialty retailer was founded in 1981 and operates moderate-size toy supermarkets of 12,000 square feet in medium-size markets.

According to president and chairman Bruno Ferretti, a former executive at Avon, Mass.-based Child World, Tons of Toys deliberately avoids major metro markets where large competitors such as Toys "R" Us and Child World are located.

"I realized long ago, during my 30 years in the retail business, that I could not start a chain that would directly compete with the toy giants. I knew that I would have to come up with an alternative strategy," said Ferretti, who in 1969 was one of three managers charged with developing a toy supermarket subsidiary called Spree for Zayre Corp. Ferretti, who earlier served as a toy buyer for 13 years with Lechmere, the Dayton Hudson hard lines chain, acknowledged that the failed Spree experiment taught him a lesson.

"Even though nine stores opened in two years, the project failed because the stores tried to emulate the toy giants too closely and were placed in markets to directly compete with them," he said.

According to Ferretti, Tons of Toys' 12,000-square-foot

(Continued on page 118)

2

Apparel off-pricers continue to upscale store environments. Burlington Coat Factory, North Brunswick, N.J., uses department store-like fixtures and displays.

By Kenneth M. Chanko
Nationwide DSN Report

Fashionable, brand name apparel at the right price is no longer the credo for just the department and specialty store. Retailers in the increasingly competitive off-price apparel market are now pursuing that often elusive formula.

In-depth, high-profile branded assortments and everyday value price points—not down-and-dirty promotional pricing of labels no one's ever heard of—is the key to success in today's off-price apparel game. The buzz-phrase on everyone's lips is "perceived value."

With that more sophisticated strategy has also come vigorous upscaling of store environments, which are beginning to resemble many popularly priced specialty stores.

Such trends are buttressed by the findings of an exclusive Jerard Less/*Discount Store News* study of the major players in the off-price apparel business.

The survey, which includes detailed responses from merchandise managers, as well as top executives of off-price chains, also shows that high-profile brand names are playing an increasingly important role in this market segment.

Best illustrating the changing mindset of off-price executives and merchandisers were their answers to the question: "What draws consumers to your store?"

(Continued on page 32)

MARKETWATCH

NEW YORK — Television advertising last year by footwear retailers and manufacturers jumped 42 percent to $93.8 million, according to the **Television Bureau of Advertising.** The greatest portion of the total was for retail TV advertising, with Payless Shoe Stores, a May Department Stores Co. division, the leading advertiser with $16.8 million in expenditures. Woolworth's Footlocker was second, and Kinney, also a Woolworth division, was third.

* * *

FRAMINGHAM, Mass. — TJX Cos. has increased its quarterly dividend to 12.5 cents a share from 7.5 cents, payable June 2 to holders of record May 12. The new rate is 50 cents on an annual basis. Zayre Corp. owns 82.9 percent of TJX, the off-price apparel unit consisting of T.J. Maxx, Hit or Miss and Chadwick's of Boston. A spokesman for Zayre and TJX said that an increased dividend is a "totally appropriate way for Zayre to receive cash from TJX."

* * *

RICHMOND, Va. — **S & K Famous Brands,** the men's wear off-pricer here, turned in record sales of $43.1 million for the year ended Jan. 30, 1988, a 10 percent increase over 1986. The 60-store off-pricer, which has units in 14 states, also saw operating income for the year jump 35 percent to a record $1.75 million, or 85 cents per share, a 35 percent jump over the prior year. S & K opened 13 new stores last year. Also last year, the retailer added Richard L. Sharp, president and chief executive officer of Circuit City Stores, to its board. Stuart Siegel, S & K chairman, said about 15 additional stores will open in 1988.

NEW YORK — **Kurt Salmon Associates,** the retail/manufacturer/textile consultant firm based here, will hold its annual financial breakfast and soft goods business review at the Grand Hyatt Hotel in Manhattan on May 26. Walter Loeb, retail analyst for Morgan Stanley, will discuss "The View From Wall Street," which will focus on the surge of mergers and buyouts and its effects. Consumer purchase trends and the consulting firm's retail profile will be covered, along with apparel and footwear profiles and the performances of public textile firms.

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Off-Pricers Realize the Importance of High-Profile Brands

(Continued from page 29)

Top Off-Price Apparel Specialty Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size
	1987	1986		1988	1987	(In Sq. Ft.)
TJX Cos.*	$1,644	$1,395	17.9%	815	750	
T.J. Maxx	1,288	1,050	22.7	305	265	25,000
Hit or Miss (Framingham, Mass.)	350**	340	3.0	510	485	3,500
Marshalls (Wakefield, Mass.)	1,603	1,409	13.8	311	286	29,000
Ross Stores (Newark, Calif.)	576	534	7.9	NA	131	25,000
Burlington Coat (Burlington, N.J.)	490	382	28.3	125	104	55,000
Loehmann's (Bronx, N.Y.)	334	323	3.4	86	80	15,000
Filene's Basement (Wellesley, Mass.)	278	248	12.1	22	22	25,000
Sym's (Lyndhurst, N.J.)	255	223	14.4	NA	18	50,000
Kids 'R' Us (Rochelle Park, N.J.)	250**	125**	100.0	109	74	20,000
ClothesTime (Anaheim, Calif.)	179	161	11.2	NA	341	3,800
Dress Barn† (Stamford, Conn.)	173	135	28.0	365	302	4,000
NBO Stores (Secaucus, N.J.)	86	73	17.8	34	28	8,500

NA—not available

* *TJX Cos., which consists of Chadwick's of Boston, a cataloger, in addition to T.J. Maxx and Hit or Miss, was spun off from Zayre Corp. last year.*

**DSN *estimate*

† *Sales figures reflect company's fiscal year ended July 31, 1987.*

Source: DSN *research*

Answers included such characteristics as credibility, service, fashion merchandise, selection, quality and value. Summing up the attitude was the response, "Our assortments and our presentation, with our prices being the bonus."

When off-pricers were asked what they offer their customer in the way of perceived value, answers included "brand names," "our selection and price," "40 percent to 60 percent off compared to department stores on all apparel" and "our services, such as credit cards, tailors, very liberal return policies and layaway programs."

Following a trend gaining greater acceptance among full-line discount department store retailers, off-price apparel chains are also favoring an everyday low price strategy over a promotional mentality, the survey revealed.

Strategy Selection

Respondents were asked to name which of the following four strategy or strategies, was used to gain a competitive edge: everyday low prices, promotional, in-depth assortments and one-price concept.

Everyday low prices and in-depth assortments, together, received the greatest number of votes from off-price apparel retailers. Only one retailer answered just "promotional," and only one answered just "everyday low prices."

While price, naturally, remains a key issue in this business, 36 percent of all respondents said in-depth assortments was the one quality that appeals most to their customer, while 45 percent said everyday low prices, and 19 percent said promotional.

As off-pricers more and more begin to resemble regular-priced apparel specialty stores in merchandise carried and presentation, department/specialty stores are becoming more and more promotional, and hence are beginning to resemble off-pricers in terms of price points.

While the off-pricers contacted for the survey acknowledged such promotional competition from above, 64 percent said it would not affect their business strategy. However, a majority—55 percent—said they will be taking some steps to meet the lower pricing competition.

The reasoning of the 45 percent who said they wouldn't be taking any steps included such comments as: ". . . price is not a reflection of quality;" "We already have 20 percent to 30 percent off department store pricing;" and "We are on the upper-end and will remain that way . . ."

As many as 73 percent of the off-pricers participating in the survey said they maintain guidelines for price-point differences between their stores and department and full-price specialty stores, with the same percentage also saying they have a rule-of-thumb percentage. Responses ranged from 20 percent to 60 percent below department/specialty stores.

Off-pricers are also undergoing major upscaling projects. According to the survey, 82 percent said upscaling and upgrading of fixtures and visual merchandise was "very important" to their store, and 73 percent said their chains will be upscaling over the next 12 months. "We plan to improve our store design as far as layout is concerned," said one. Another said that chain is planning "better lighting and [more] poster boards."

Off-Pricers Post Growth, Plot Aggressive Expansion

It's apparent that the strategies being pursued are succeeding. Evidenced by the accompanying chart of the top 12 off-price apparel chains, these retailers experienced significant growth in 1987, and projected expansion in store units this year is aggressive.

One of the key strategies every off-pricer is pursuing is a continued emphasis on stocking the major brand names.

Marshalls' experience over the past two years is a perfect example of the importance of high-profile brands.

In 1986, Marshalls' comparative store sales fell 0.8 percent and the chain also saw a decrease in operating profits.

Marshalls recognized the problem: the chain had been putting practically any label it could get out on the floor and promoting it. The emphasis was not on the major, popular brands and labels.

Starting early last year, Marshalls, which also stepped up image advertising on television and radio, shifted back to better brand names with a fashion cachet and has gotten back on track. Comparable store sales increased 6.5 percent last year, and overall sales rose 13.7 percent, compared to a 7 percent increase from 1985 to 1986.

The new TJX Cos.—which combines T.J. Maxx, Hit or Miss and Chadwick's of Boston (the latter being a negligible contributor to overall sales)—edged out Marshalls last year as the largest off-price chain.

However, as far as individual chains go, Marshalls is still No. 1 in sales, with T.J. Maxx No. 2 (see story, page 34).

The survey also backed up the importance of brands. As many as 91 percent of all respondents said brand names are an important attraction for their stores, with 50 percent saying their percentage of upscale brands were increasing as part of the product mix, and the other 50 percent saying it was maintaining. No one said upscale brands were being decreased as part of the mix. The average percentage increase was 20 percent.

Not only are existing off-pricers increasing their store counts, but new players are taking the field and are beginning to make an impact.

Following the Example

Following the Filene's/Filene's Basement approach, Nordstrom spun off Nordstrom Rack, an off-price operation, as freestanding units several years ago. There were 11 units by 1987 year-end.

And earlier this month, Neiman-Marcus, the upscale department store, opened a 30,000-square-foot off-price unit, called Last Call (named after the retailer's famous January and July sale periods), in Austin, Texas. The unit will primarily sell apparel—at 65 percent or more off the original retail price—but also includes shoes, accessories and certain home products. A second unit is planned for Wayne, N.J.

This year's census chart of the top off-price apparel chains features a handful of changes that include the appearance of Kids "R" Us, which doubled its sales volume in one year and made the top 10 listing this year.

Also, Sizes Unlimited, since it traded up, out of the off-price business, is no longer included in the chart listing.

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Home Products

NHMA Study Unveils Top Growth Categories

By Mary Ellen Kelly

CHICAGO — Tabletop and serving pieces, cookware and bakeware, and furniture were the top growth areas in this year's housewares survey conducted for the National Housewares Manufacturers Association.

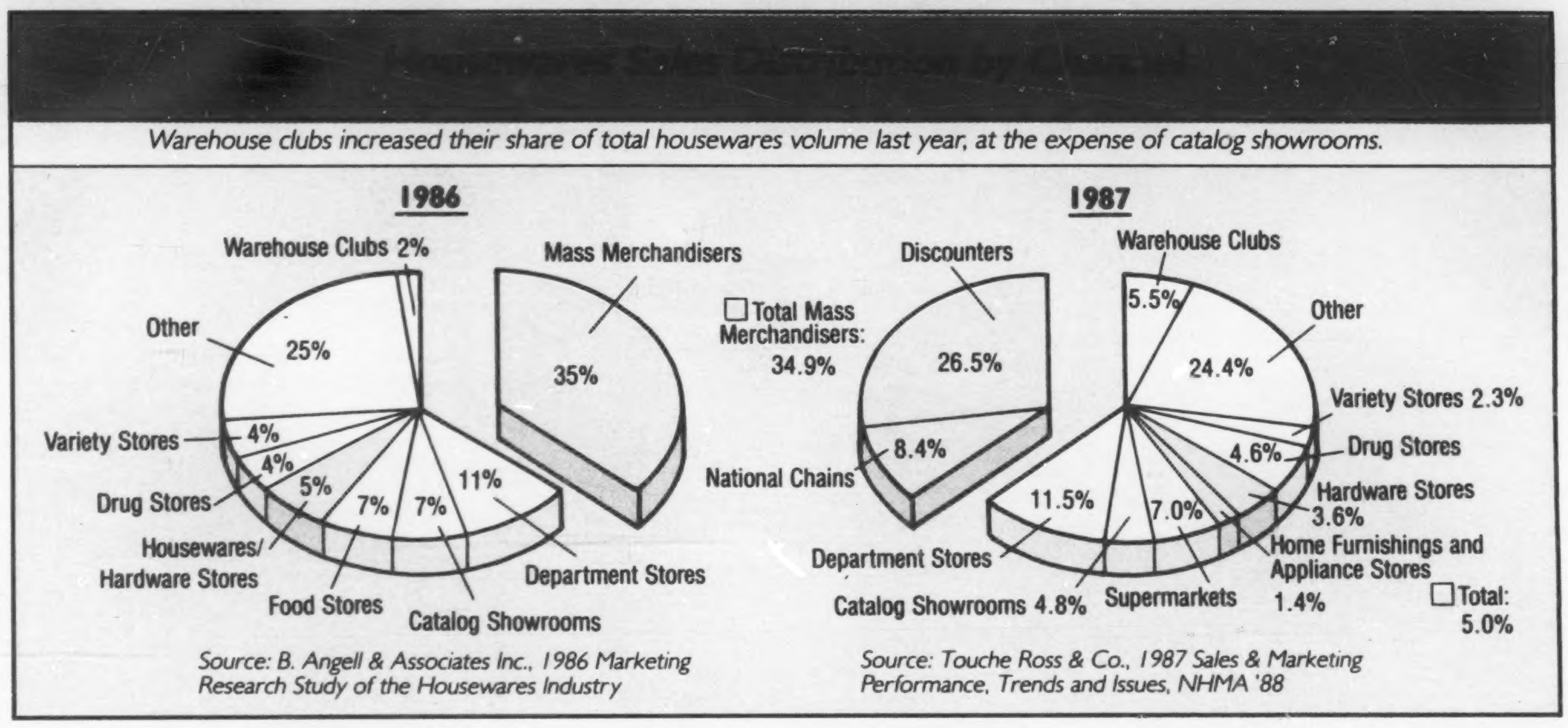
Unveiled last month, this report is the first in a new series of housewares studies conducted by Touche Ross & Co. for the NHMA.

The Touche Ross study, called "Highlights of 1987 Sales and Marketing Performance, Trends and Issues," marks the end of two decades of annual industry reports by Chicago-based B. Angell & Associates.

Jay Spaulding, NHMA president, last year decided to replace B. Angell with Touche Ross, as part of his conviction to become "the definitive resource for housewares industry figures anywhere." At the time, he said the former NHMA research source, B. Angell, was a firm that was, "competent for the consumer level."

The Touche Ross study offered much of the same type of information as previous years' reports by B. Angell, but unlike its predecessor, Touche Ross gave insight into which product groups were enjoying above average sales growth during 1987.

Tabletop and serving pieces, cookware and bakeware, furniture and, to a lesser extent, cleaning products, were the four groups where there was a higher than average concentration of "high growth" companies.



Warehouse clubs increased their share of total housewares volume last year, at the expense of catalog showrooms.

Source: B. Angell & Associates Inc., 1986 Marketing Research Study of the Housewares Industry

Source: Touche Ross & Co., 1987 Sales & Marketing Performance, Trends and Issues, NHMA '88

Housewares companies reporting a sales increase of 23 percent or above between 1986 and 1987 were considered to be in a high growth mode. The housewares industry as a whole grew at a 7 percent rate during the same time period. No companies that were less than a year old were included in the "high growth" grouping.

While the two research firms undertook different approaches to measure the size and direction of the industry, both used NHMA members as the primary data source. And as a result, sales by channel figures differed little between the two studies.

The B. Angell research had a retail channel called "mass merchandisers" which accounted for 35 percent of total volume in its last study (for fiscal year 1986). The current Touche Ross report has two separate groups called "discounters" (27 percent) and "national chains" (8 percent). These two channels combined are likely to be synonymous with B. Angell's category of "mass merchandisers" which were gauged to be 35 percent of total industry volume during 1986.

If the two studies are to be viewed as comparable to one another, membership warehouse clubs was the outlet that experienced the highest rate of growth while catalog showrooms had the highest growth rate decline. In last year's survey, warehouse clubs garnered 2 percent of total business. This year's Touche Ross survey reported that warehouse clubs' market share in housewares grew to nearly 6 percent.

Catalogers—which had been the third largest outlet in the 1986 study, behind mass merchandisers and department stores—dropped from 11 percent to under 5 percent of sales in 1987, according to Touche Ross.

Spaulding and Dan O'Conner, a Touche Ross spokesman, said that catalogers and warehouse clubs had the bulk of their sales within similar product groupings, including small electrics, cookware and bakeware. Catalogers outpaced clubs in furniture while warehouse clubs did more business than catalogers in kitchen accessories items, they said.

"If you take a look at the data, all housewares sold through the catalog channel is shrinking. They have been de-emphasizing housewares and it is no wonder their share of the business is falling," Spaulding said.

The glossary included in the Touche Ross survey helped define which stores were included in a given retail category, resulting in more accurate sales-by-channel data.

While the housewares retail industry was subdivided into 16 distinct channels—ranging from department stores to company outlets, mail order, and gift, novelty and souvenir stores—there remained an over 5 percent "other" category. In fact, the "other" category was the seventh largest retail channel.

Spaulding explained that a considerable portion of the "other" channel represented military outlets which he estimated to be the ninth largest retail channel in the country, generating a high amount of business in the housewares and health and beauty aids product categories.

Recording Industry to Continue Fight Against DAT Recorder Sales

By Josephine Fiamingo
Nationwide DSN Report

Just when consumer electronics manufacturers thought they had won their battle to market unrestricted-use digital audio tape recorders in the United States, the recording industry has begun preparations for Round 2 of its fight to keep the new technology off the market.

Many industry observers felt that DAT recorders had the "green light" to be sold here after the recent release of a National Bureau of Standards study reporting that the CBS chip—designed to prevent duplication of prerecorded software—does not work well and diminishes quality.

Despite the report, however, the Recording Industry Association of America vowed to continue its efforts to protect the sales of prerecorded tapes, records and compact discs. Earlier, the RIAA had reached an agreement with the Electronic Industries Association to let the National Bureau of Standards decide on

(Continued on page 71)

MARKETWATCH

CHICAGO — **Montgomery Ward** opened six new specialty stores in one day last month: three in Chicago and three in Indianapolis, a new market for the general merchandise and specialty retailer. On April 14, Ward opened units acquired from Federated Department Stores in three Indianapolis malls. These stores contain Ward's Home Ideas (home furnishings), Electric Avenue (electronics and appliances) and Apparel Store specialty categories. One of the units also has an Auto Express and another is slated to add the auto parts and service department at a later date. In the Chicago area, Ward opened Home Ideas, Electric Avenue, and a Gold 'N Gems jewelry unit in a former McDade's catalog showroom in Aurora. An Auto Express unit is planned in a separate building at this site. "We are right on our plan for opening more than 200 stores within the next five years and more than 20 in 1988," said Bernard F. Brennan, president and chief executive officer.

* * *

MELROSE PARK, Ill. — **Polk Bros.**, a discount specialty chain specializing in appliances, television sets, stereo, furniture and carpeting, announced that it will rebuild a Polk retail store and corporate headquarters, which were destroyed in a fire last year. The 10-store Chicagoland chain also said that additional new sites are under consideration for expansion this year. Lester Bachmann, newly-elected chairman and president of the privately-held firm, also announced the election of new officers: Sol Polk, founder, was named chairman emeritus; Michael Crane, previously secretary-treasurer, was named vice president for operations; Howard Polk, previously a merchandising manager, was named treasurer; and Paul Fischer, corporate counsel, has the added responsibilities of secretary to the corporation.

* * *

PLYMOUTH, Mich. — **Highland Superstores** reported its sales rose 15 percent to $753.4 million for the year ended Jan. 31. Net income for fiscal 1987 declined 31 percent to $13.9 million (76 cents per share), from $20.2 million ($1.11 per share). The 1987 earnings include a credit of about $5.7 million, from the cumulative effect of accounting changes related to inventory costing and to extended service contracts. In addition, comparable store sales (those open at least 24 months) fell 10 percent last year. The chain of 73 electronic superstores was particularly hurt in the fourth quarter: Even though sales were up 21 percent to $270 million, net income fell 48.6 percent to $3.6 million. The company noted sales and gross margins for the year were adversely affected by the weak economic conditions in Texas and by softening economies and increased competition in other major markets in which it operates. Gross profit margins and SG&A expenses were also adversely affected by promotions associated with store openings, particularly in new markets. Highland operates stores in Michigan, Ohio, Indiana, Rhode Island, Wisconsin, Minnesota, Massachusetts, Illinois, Texas and Louisiana.

AD Activity Survey: Consumer Electronics, Bradlees, February 1988

Product	Brand	Model/ Description	Sale Price	Regular Price
Answering Machine	GE	2-9860	$69.99	$89.99
Calculator, Hand Held	Canon	PZ-D, 8 digit	14.99	19.99
Calculator, Hand Held	Sharp	EL1611S, 10 digit	19.99	24.99
Calculator, Desk Top	Canon	P20DX	24.99	29.99
Calculator, Printer	Casio	FR125, 12 digit	39.99	
Micro Speakers	Sanyo	SP-4	7.99	9.99
Phone, Cordless	AT&T	4110	69.99	89.99
Phone, Slimline	GE	2-9110	19.99	24.99
Phone, Speaker	GE	2-9355	49.99	59.99
Radio/Cassette	Sanyo	MGR62	24.99	34.99
Stereo Radio, Boom Box	Sanyo	M7024	39.99	59.99
Watch	Armitron	his/her	29.99	39.99

Source: Vereen & Associates, Indianapolis, May 1988

AD Activity Survey: Consumer Electronics, Zayre, February 1988

Product	Brand	Model/ Description	Sale Price	Regular Price
Answering Machine	Phone-Mate	6800	$49.99	$69.99
Calculator, Solar	Casio	MS8W	7.99	
Calculator, Solar	Casio	SL300H	4.99	
Cassette Jogger	Emerson	CRS24/23	19.99	25.97
Cassette Jogger	Lenoxx	892	6.99	9.99
Clocks, Wall	Sunbeam/Spartus		8.99'	9.99-13.99
Headset	CEC	RHP0360	6.99	9.99
Headset/Speaker Combo	Randix	HPS900	6.99	9.99
Phone, Cordless	Lenoxx	PH605	39.99	49.99
Phone, Cordless	Unisonic	6080	49.99	59.99
Phone, Memory	Randix	TLM1200	14.99	19.99
Phone, Slimline	Randix	TL1100	12.99	15.99

'—price does not include rebate offer

Source: Vereen & Associates, Indianapolis, May 1988

Ad Activity Survey

Ad Activity Survey is conducted monthly by Vereen & Associates, Indianapolis. It provides information on items, brands, models and prices of various products advertised by major retailers across the country. This month, *DSN* spotlights some consumer electronics products on sale at Bradlees and Zayre in February.

MANUFACTURER NEWS

NEW YORK — **Fieldcrest Cannon** has obtained a license from **Pillsbury** allowing the company to use Pillsbury's well-known commercial characters on a collection of kitchen textiles.

Characters and logos include the Pillsbury Doughboy and Little Green Sprout, two of television's most familiar animated product characters.

According to a Cannon spokesman, the kitchen collection will be available this spring. The Doughboy recently finished first in two commercial character polls, including *Advertising Age*'s "Whom Do You Love" competition, Pillsbury said.

* * *

SAUDER®
woodworking

ARCHBOLD, Ohio — **Sauder Woodworking**, manufacturer of Foremost ready-to-assemble furniture, will be using a new Sauder logo as it drops the Foremost name.

Use of both names by the manufacturer created, "confusion of identity," according to a Sauder statement.

The new logo is being phased into company advertising, cartons, instruction sheets and trucks as the Foremost name is eliminated. The logo consists of the name, "Sauder woodworking," with the Sauder name in large, bold-face type.

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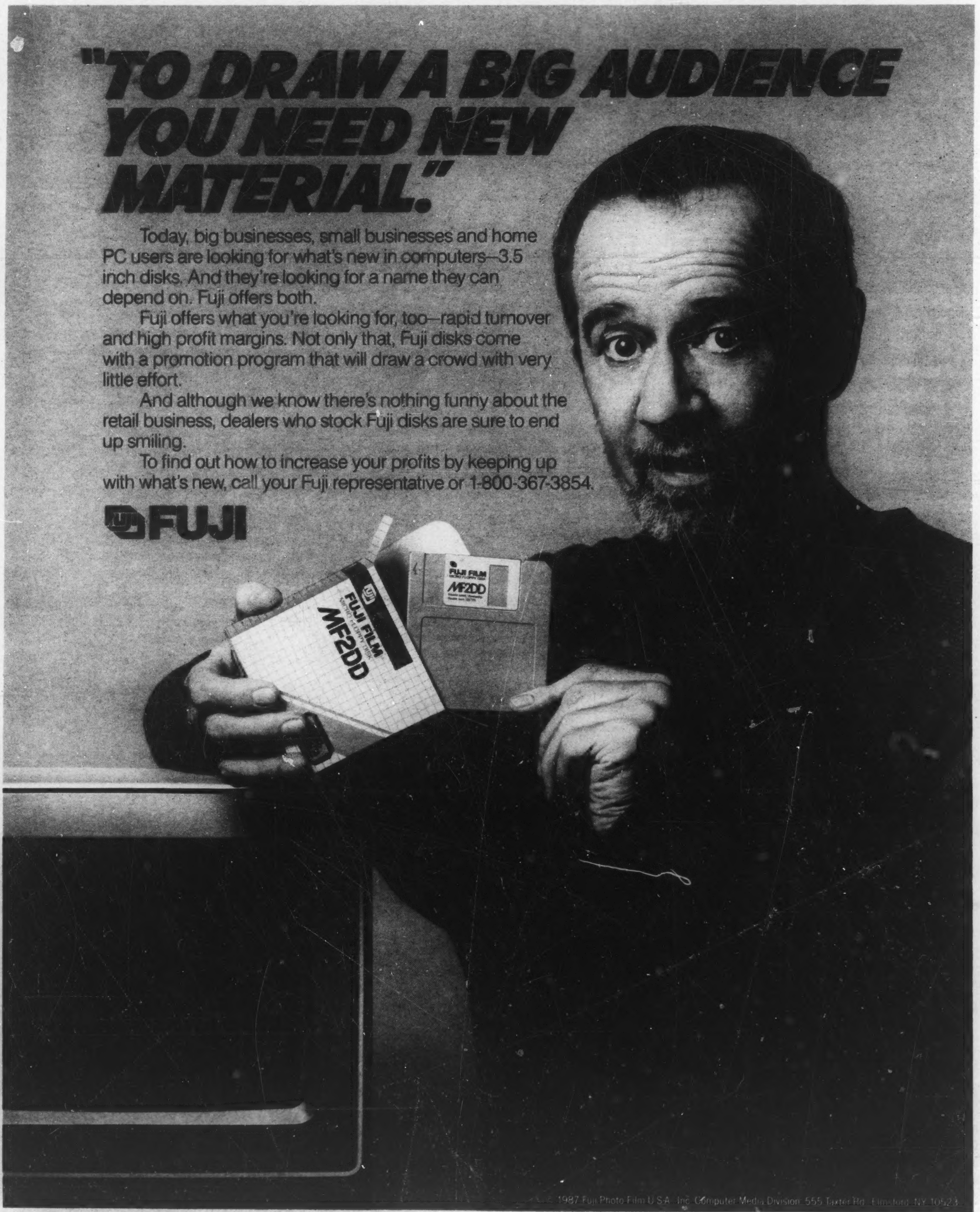

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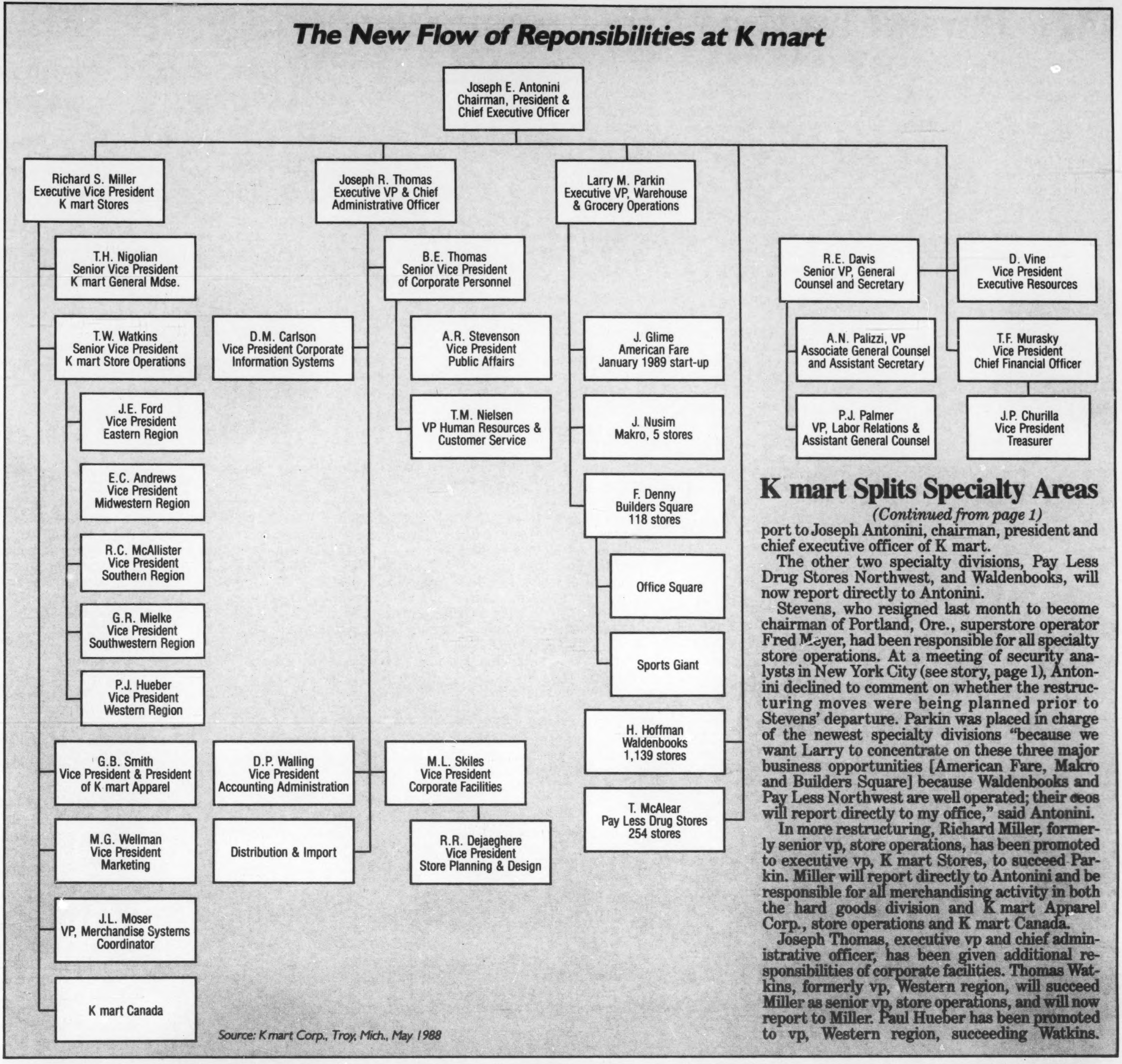
The New Flow of Reponsibilities at K mart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Chairman, President &
Chief Executive Officer
Richard S. Miller
Executive Vice President
K mart Stores
T.H. Nigolian
Senior Vice President
K mart General Mdse.
T.W. Watkins
Senior Vice President
K mart Store Operations
J.E. Ford
Vice President
Eastern Region
E.C. Andrews
Vice President
Midwestern Region
R.C. McAllister
Vice President
Southern Region
G.R. Mielke
Vice President
Southwestern Region
P.J. Hueber
Vice President
Western Region
G.B. Smith
Vice President & President
of K mart Apparel
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Vice President
Marketing
J.L. Moser
VP, Merchandise Systems
Coordinator
K mart Canada
Joseph R. Thomas
Executive VP & Chief
Administrative Officer
D.M. Carlson
Vice President Corporate
Information Systems
D.P. Walling
Vice President
Accounting Administration
Distribution & Import
B.E. Thomas
Senior Vice President
of Corporate Personnel
A.R. Stevenson
Vice President
Public Affairs
T.M. Nielsen
VP Human Resources &
Customer Service
M.L. Skiles
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R.R. Dejaeghere
Vice President
Store Planning & Design
Larry M. Parkin
Executive VP, Warehouse
& Grocery Operations
J. Glime
American Fare
January 1989 start-up
J. Nusim
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F. Denny
Builders Square
118 stores
Office Square
Sports Giant
H. Hoffman
Waldenbooks
1,139 stores
T. McAlear
Pay Less Drug Stores
254 stores
R.E. Davis
Senior VP, General
Counsel and Secretary
A.N. Palizzi, VP
Associate General Counsel
and Assistant Secretary
P.J. Palmer
VP, Labor Relations &
Assistant General Counsel
D. Vine
Vice President
Executive Resources
T.F. Murasky
Vice President
Chief Financial Officer
J.P. Churilla
Vice President
Treasurer

Source: K mart Corp., Troy, Mich., May 1988

K mart Splits Specialty Areas

(Continued from page 1)

port to Joseph Antonini, chairman, president and chief executive officer of K mart.

The other two specialty divisions, Pay Less Drug Stores Northwest, and Waldenbooks, will now report directly to Antonini.

Stevens, who resigned last month to become chairman of Portland, Ore., superstore operator Fred Meyer, had been responsible for all specialty store operations. At a meeting of security analysts in New York City (see story, page 1), Antonini declined to comment on whether the restructuring moves were being planned prior to Stevens' departure. Parkin was placed in charge of the newest specialty divisions "because we want Larry to concentrate on these three major business opportunities [American Fare, Makro and Builders Square] because Waldenbooks and Pay Less Northwest are well operated; their ceos will report directly to my office," said Antonini.

In more restructuring, Richard Miller, formerly senior vp, store operations, has been promoted to executive vp, K mart Stores, to succeed Parkin. Miller will report directly to Antonini and be responsible for all merchandising activity in both the hard goods division and K mart Apparel Corp., store operations and K mart Canada.

Joseph Thomas, executive vp and chief administrative officer, has been given additional responsibilities of corporate facilities. Thomas Watkins, formerly vp, Western region, will succeed Miller as senior vp, store operations, and will now report to Miller. Paul Hueber has been promoted to vp, Western region, succeeding Watkins.

Yellow Front Incorporates Bonanza Stores; Seeks Diversity

(Continued from page 3)

So far, most of the merchandising changes have been gradual at Bonanza. Yellow Front first liquidated much of the old merchandise and then slowly brought in Yellow Front merchandise, Lee said.

New fixtures were put in place at the former Bonanza locations, and Yellow Front is using the stores to test a new distribution system in some hard lines categories.

Although Yellow Front has a large distribution center in Phoenix, the chain is using distributors for paint, garden, electrical, plumbing and hardware. If the utilization of regional vendor expertise improves the mix and movement in those hard lines categories, the chain may borrow successful strategies from this approach to help its own buyers service the remaining stores.

For years, Yellow Front has been known primarily as a small town discounter specializing in Levi's jeans and hunting, fishing and camping equipment. While the Bonanza stores fit neatly into this formula, it also provides the Yellow Front chain with the opportunity to expand its merchandise mix and compete better in metropolitan markets like Phoenix.

Yellow Front is "a profitable company that just needs to change with the times," said Lee. Sales in 1987 hit $149 million and are expected to reach about $220 million in 1988.

Lee and majority financier Kenmare, New York, acquired Yellow Front from Lucky Stores last year, when the predominately grocery company divested all of its non-foods operations.

Since then, Lee has been fine tuning Yellow Front's merchandising and operations strategies. One of his key moves has been to bring in more special deals, or closeout merchandise.

Lee said the chain is large enough to take advantage of manufacturer specials, while also small enough to be able to act quickly and move on deals too small for larger retailers.

To promote this expanded approach, Yellow Front is increasing its advertising budget this year to $6.5 million, compared with $4.3 million spent in 1987, Lee said.

The chain has started a new radio campaign that Lee said, "sort of makes fun of us," by playing on the past image while introducing its new emphasis on closeout merchandise. Through this approach, Lee said he hopes to attract a broader consumer base, including customers who might otherwise shop at department stores.

However, Lee insisted that Yellow Front is not abandoning its core shoppers and is not bringing in the type of closeout merchandise sold by closeout specialists. He said Yellow Fronts' specials are on larger items that are a "more directed purchase."

In addition to updating Yellow Front, Lee said the company is also moving into diversification. Recently, the company opened its second Craft Fair, an upscale craft store that includes special touches like British antiques.

"The approach to the marketplace is genuinely different than what other people are doing," Lee said of Craft Fair. The 12,000-square-foot to 13,000-square-foot stores include craft items, glass cutting supplies and craft classes.

Lee said Yellow Front ventured into this market because it wanted to go after a totally different customer base from its discount stores. A third store was due to open late last month or in early May and Lee said he is presently seeking two additional sites. The company plans to open 10 craft stores next year.

Yellow Front is also currently looking to acquire an off-price apparel chain, but Lee said the deal is currently under negotiation and he can't divulge any details.

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Vol. 27, No. 10 May 9, 1988

Auto Buyers Cast Wary Eye on Antifreeze Shortage, Price Rise

(Continued from page 1)

ers find they can fetch a higher price for their ethylene from producers of paper, glass, detergents, plastic pipe and soft-drink bottles than from antifreeze makers. Accordingly, they are diverting scarce supplies to more profitable uses and raising the price to antifreeze makers, said Neil McStay, product manager for Xerex, now a unit of BASF.

Effective April 18, Xerex increased its price 40 cents a gallon to $4.49, on top of a 50 cent increase in January.

In January, Prestone increased its price by 60 cents a gallon to a base price of $5.84.

Texaco raised its price 34 cents more a gallon, effective May 1, to $3.99. That's $1.10 higher than it was a year ago. By fall, the price will be $1.75 a gallon higher than a year earlier, predicted Jack Glidden, special products manager for Texaco in Houston.

Last month, buyers attempting to beat the May 1 increase swamped Texaco with a flood of new orders, Glidden said. In response, it rationed buyers to 100 percent of last year's orders, he said.

Shell Oil raised the price of its Shellgard freeze 20 cents a gallon, effective April 25, to $3.80, a spokesman said. On Feb. 15, it had raised the price 25 cents a gallon to $3.60. A year ago, its posted base price was $2.69. Shell plans no rationing, the spokesman said.

"The market is tight and predicted to get tighter," said Court Kirkley, brand manager for Prestone.

Although Prestone plans no further increases, it won't give much advance notice if it does raise prices, he warned.

Despite increases at wholesale, consumers still might be able to buy Prestone in the $4 range, Kirkley said, thanks to discounts from base price and loss leader merchandising.

Peak, a brand now owned by Old World Trading, increased its price by 30 cents a gallon, effective May 1, to $3.94 and served notice that its 50 cents a gallon discount could be pulled without notice. And on June 1, Peak will rescind half of that discount and cancel the remaining 25 cents July 1. On March 4, Peak had raised its price, also by 30 cents, to $3.64 from $3.34 set Jan. 1. At presstime, Peak was considering a sales control program to limit or reject orders, said Steve Warrenfeltz, senior vice president.

McStay said he expects no shortage of Xerex to develop, but tight supplies are limiting plans to gain market share.

Northern Automotive, a Phoenix, Ariz.-based combine of 820 stores operating under six chain names, has negotiated prices that will hold steady until fall, said Ben Parsons, senior buyer.

Even though he expects no shortage of supplies, Parsons expects to be paying more this fall. "I'm going to be leaning harder on them for rebates, though," he said, and predicted that "consumers will be seeing higher prices at retail.

Prices of motor oils also are going up because oil companies have to pay more for their plastic bottles, Parsons said.

Producers of private labels, who must source their ethylene glycol, might be hurt as producers of brand labels keep supplies for themselves, speculated a buyer for a major Southeastern chain. Requesting anonymity, the buyer said, "we have to wait and see. We're not loading up on it."

Tim Crager, automotives buyer for Heck's, Nitro, W.Va., also is sitting pat on his inventory, even though he acknowledged that he doesn't "know how it's going to shake out." Although he "sort of believes" industry warnings about possible shortages," Crager said "I'm going to let it ride. We've got enough stock to last through summer. I'll worry about it next August.

"I'm not trying to create a shortage" by buying to beat price increases or warnings of tight supplies, he said.

Said a buyer for a Northeast chain, "I don't want to even hear about antifreeze. Prices are going crazy. I'm in a quandary. I don't know what to do." The buyer, who asked to remain anonymous, said he is putting together a comparison of various vendor's pricing and willingness to commit themselves. "Everybody is getting close to Prestone" in price, he said.

As for retail, "I'm not going to be the first on the block to raise prices. That would be the kiss of death."

Sears to Battle CE Specialty Chains

(Continued from page 1)

to $179.5 million from $287.9 million a year ago, sales rose 16 percent to a record $12.16 billion. Sears, Roebuck & Co. chairman and ceo, Edward A. Brennan, noted that the company's profits decline is not an indicator of its 1988 results. Income for first quarter 1987 rose a record 47 percent.

A company spokesman told *DSN* that Sears decided to convert the retailer's traditional appliance and consumer electronics departments into superstores "to maintain our position as a premier marketer of appliances and home electronics and to present the customer with a wide variety of choices."

The superstore program will be implemented in three phases: first, Sears will install the superstore departments in select markets and refine the program; second, the retailer will expand the concept throughout the chain; and third, it will open freestanding units. The spokesman gave no timetable for this process. He also declined to name the specific name brands to appear in the superstores.

Sears already offers consumers Sears brand CE equipment plus Sony, RCA, Pioneer and Magnavox products but only Kenmore home appliances.

The superstore departments will be expanded by more than 50 percent of their current size, with existing floor space being rearranged so as to utilize "used selling space" contained in the stores' storage and warehouse areas.

Sears, with 813 stores at year-end 1987, will add 39 new or relocated stores including 24 smaller market concept stores in 1988. Between 1989 and 1992, the retail giant plans to open 85 department stores and 147 smaller stores for a total of 1,050 units.

The retailer currently has two store formats: the full-size or mall store, with at least 100,000 square feet of selling space; and the smaller—up to 100,000 square feet—market-driven stores that feature merchandise specifically focused on a particular market.

Like its competitor, Montgomery Ward, which is transforming itself into a specialty retailer, Sears is likely to intensify its move into the specialty arena.

So far this year, Sears has opened two Sleep Shops in Miami in February and announced plans to open a Chicago neighborhood apparel and home fashion shop and a home fashions store in New York City. Both concepts are experimental.

The two Sears Sleep Shop locations offer bedding under the Sears name plus Sealy, Simmons and Spring Air in addition to sleep sofas and headboards in units of between 4,000 square feet to 5,000 square feet.

The neighborhood store in Chicago will open sometime this summer or fall in a 59,000-square-foot location. The target customer is the apartment dweller, about the same as for the home fashion unit opening in Manhattan this summer.

Antonini's K mart Vision: Be Most Efficient Retailer

(Continued from page 1)

year will assign, or centrally merchandise, more than $5 billion worth of goods, up from less than $2 billion in 1986. By early next year, all advertised and seasonal merchandise in the hard goods area will be centrally merchandised.

On Feb. 1, K mart placed its small appliances department on a centralized merchandising system. Since full implementation of the program in late February, small appliance sales were up 33 percent and gross margin rose 2 points in the eight-week period.

Next year, as much as 75 percent of all merchandise sold in K mart stores will be centrally merchandised.

Antonini reported that the first 244,000-square-foot American Fare hypermarket, to open in Atlanta late this year or early in 1989, will be followed by four other units in the 120,000- to 160,000-square-foot range by 1990.

Makro, K mart's recently-acquired warehouse club operation, will be expanded rapidly from its current five stores, while "simultaneously instituting a serious reorientation of the general merchandise part of the business.

"We also see groceries playing an important part in our mix in K mart stores in the near future," said Antonini, revealing how the chain's discount stores might benefit from Makro's food expertise.

Antonini's "vision" calls for the addition of more and larger stores to K mart's real estate portfolio. In 1988 and 1989, K mart will enlarge 100 small- to medium-size stores, and at least 100 new K mart stores, most of which will be full-size units, will be opened.

Discounter Sales Rise 11.1% in Jan.

(Continued from page 3)

three to five years after enough selling seasons have been recorded to develop the seasonal adjustor.

The just-released January 1988 Census report culminates one complete year of discount department store sales data and allows for year-to-year comparison for the first time.

The Census Bureau only started breaking out sales for discounters in January 1987. Until then, sales for discount department stores were recorded within—and not broken out separately—the department store report.

However, the Census Report takes a narrower view of the type of store that constitutes a discount department store, resulting in figures that are slightly lower than those generally accepted by the industry.

For example, *DSN*'s Census Report on the Discount Industry estimated that 1987 discount department store sales hit $84.9 billion. However, many industry followers say the figures are a good reflection of business conditions.

In the government report, discount department store retailers recorded $68.2 billion in sales in 1987, revised up 0.04 percent from an earlier report. These sales reflect an average of of 45 percent of total department store sales, a division within the general merchandise category.

Department store sales, including leased departments, totaled an unadjusted $9 billion in January, up 5.2 percent from January 1987. Sales were off 62.6 percent from December's sales high of $10.5 billion.

Sales for the entire general merchandise group, of which discount department stores are a subgroup, totaled $10.3 billion, up 4.1 percent from the same time a year ago. Sales were off 63.4 percent from December. For all of 1987, sales totaled $175.9 billion, unadjusted.

Retail sales for the nation totaled $113.6 billion in January, up 7.5 percent from the same month in 1986. Excluding automobiles, sales rose 3.4 percent, to $88.7 billion, according to the Census Bureau.

Total retail sales for 1987 were $1.5 trillion. Excluding automobiles, sales were an unadjusted $1.18 trillion.

Tons of Toys Attacks Small Markets

(Continued from page 3)

stores need only produce about $1.4 million in sales per year to be profitable, compared to the $4 million to $6 million annual volume needed to reach break even by the 36,000-square-foot to 42,000-square-foot stores operated by other toy supermarkets.

Tons of Toys' greatest benefit to its customers is the convenience it offers, Ferretti said. In most of these "markets of opportunity," as he calls them, consumers would have to travel anywhere from 20 to 50 miles to get to the next closest toy supermarket. In Rockland, Maine, for example, the closest toy supermarket is 80 miles away from the Tons of Toys store.

Ferretti is less concerned about the discount department stores situated near his stores. In Rockland, both Zayre and Ames are located near his store.

"It is well documented that the mass merchandisers are losing market share," Ferretti said. "The toy retailing business [specialty stores] has dramatically grown to a 40 percent market share of a $13 billion industry."

In merchandise mix, Tons of Toys stays similarly stocked to other toy giants—"like a baby Toys "R" Us," said Ferretti. It does not offer baby food, clothing or diapers as do most toy giants. Nor does it carry secondary brands or imported toys.

Its product line stays strictly within the confines of name brand products. Each store averages about 8,000 sku's.

Makro Enters Cleveland Market

(Continued from page 3)

frames, speeds the action and allows more merchandise to be shown in the 30-second spot. A voice track added to the film invited viewers to Makro's grand opening and told them about the store. Makro stores are not open to the general public except during grand opening events.

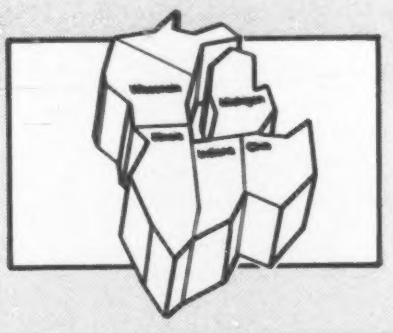
The Cleveland unit is the first store opened by the four-unit membership club chain since K mart bought a majority interest in March.

Compared to other wholesale clubs, like Price Club and Sam's, Makro carries a much wider selection of merchandise—some 20,000 to 30,000 sku's vs. just about 4,000 sku's at most other clubs. It stocks a wider selection of grocery items, sells fresh meat and operates under a business-member-only philosophy. Individual units average about $75 million in annual volume.

K mart said it plans to expand the club to about 20 units by 1990.

IMRA
ANNUAL CONVENTION
1988

Regional Analysis:
East North Central
Ohio • Indiana • Illinois
Michigan • Wisconsin



Going for a Bigger Piece of the Pie

When discounters define their customers, the image of a woman aged 25 to 44 comes into focus. And when they think of where she lives, the words describe a community in "Middle America."

It is here in Ohio, Michigan, Illinois, Indiana and Wisconsin—the East North Central region—where 55 separate discount store retailers operate more than 1,700 stores all vying for a share of the retail pie.

Middle America, however, consists of wide economic diversity. The five-state region includes: communities that are still recovering from the 1981-1982 recession; towns and cities that continue to suffer feast or famine times due almost exclusively to automobile production; and vibrant local economies such as Chicago, the financial capital, the southwestern Ohio cities of Dayton, Cincinnati and Columbus, and Indianapolis.

Expansion of Service Economy

The year-long expansion of the region's service economy combined with a revival in a broad range of durable goods manufacturing is expected to continue through 1989, outpacing the growth throughout the rest of the country, many economists project.

But even with such industries as paper, plastic, steel, furniture, farm equipment and chemicals reviving after years of decline, a slowing of automobile production and related auto parts manufacturing still mar the region's economy and cast a pall over the bright spots.

For example, the Chrysler plant in Kenosha, Wis., is expected to close soon, idling between 2,000 and 3,000 auto workers. That plant closing will probably affect an additional 2,000 to 3,000 workers employed in auto parts production elsewhere in the region, said Stan Duobins, director of regional forecasting for the WEFA Group, Bala Cynwyd, Pa., an economics reporting service.

But the manufacturing sectors that are reviving constitute a wealth of good news for discounters in the East North Central region, because the news represents large numbers of previously idled workers who will return to the payroll and ultimately, their stores.

It is "logical," said Duobins, that these previously idled workers will stimulate retail sales, especially among discounters whose profile customer closely matches these blue collar workers. And after long purchase delays, these customers are likely to make big-ticket purchases.

Discounters are ready for the activity. Many are already reinforcing their positions in these states.

For example, Sears is opening its new neighborhood store in Chicago this summer; Hills has announced it will open six new stores here this year, five in Ohio and one in Indiana; Bigg's is adding its second hypermarket in Cincinnati plus its first grocery-only store; and Quality Stores, North Muskegon, Mich., will add eight new Quality Farm & Fleet stores, all of which are located in this area; and K mart debuted its new apparel format for its mid-size stores in Lima and Piqua, Ohio, last year.

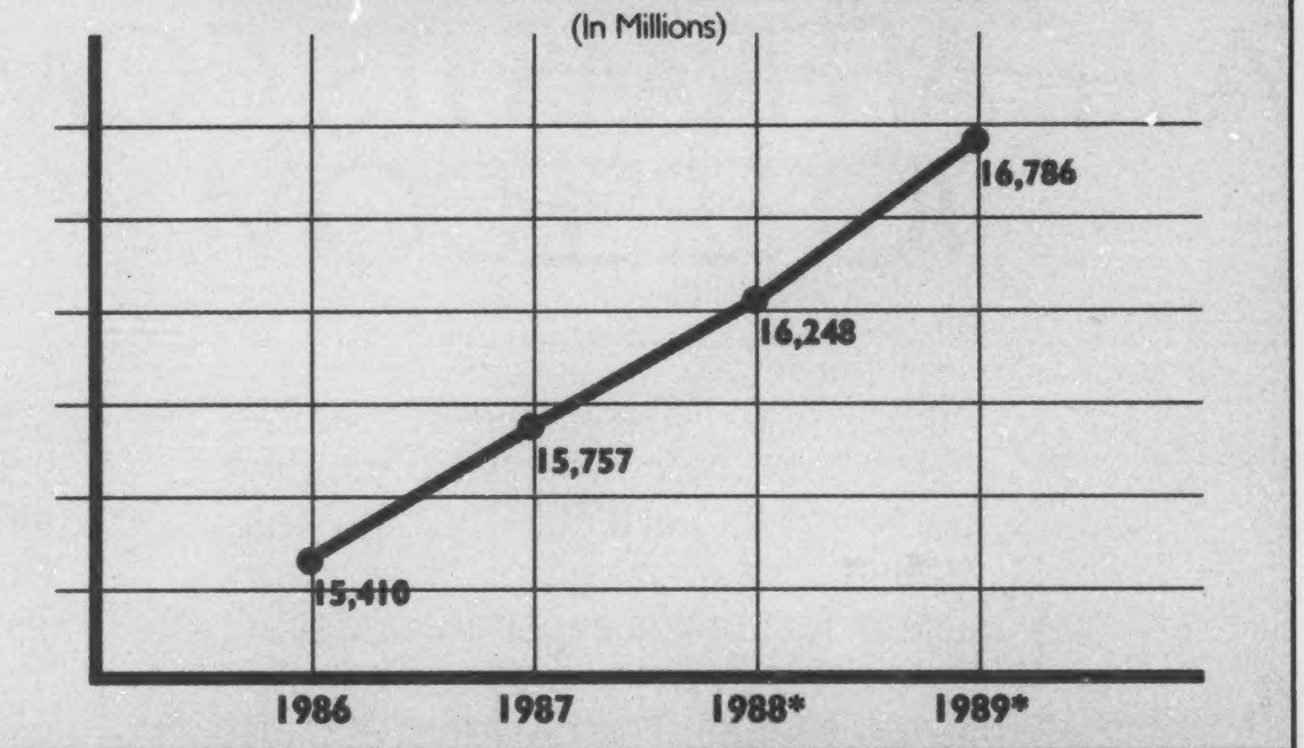
East North Central Snapshot

The East North Central states had been weak because of the softness in capital spending and domestic manufacturing. These sectors are recovering now with the fall in the dollar and the region should be among the fastest growing through 1989.

Michigan will be weak during this period because of its concentration in the auto industry. Illinois lags the regional average because of its farm sector in the southern half of the state.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Illinois	2.0%	8.2%
Indiana	4.3	6.4
Michigan	0.4	8.9
Ohio	2.5	7.1
Wisconsin	3.4	7.5
Total:	2.3	7.6

East North Central Discount Store Sales
(In Millions)



*projected

Source: DSN, Mount Economic Consulting

East North Central Region: Discount Store Count

Chain	Stores
K mart	471
Dollar General	203
Family Dollar	135
Zayre	84
Wal-Mart	84
Fisher's Big Wheel	65
Service Merchandise	55
Target	54
Hills	54
Meijer	48
Quality Stores	47
Venture	43
Murphy's Mart	37
ShopKo	34
Gold Circle	32
Harts	28
Value City	23
Pamida	22
Heck's	22
Prange Way	20
3D	18
Val Corp	11
Conley's	10
Polk Brothers	10
Others	163
Total	**1,773**

Source: DSN research

Other discounters who have already announced expansion plans for this area include: Wal-Mart, which is adding at least five stores here this year, three in Ohio and two in Indiana; Meijer, with two new stores slated for Ohio; Murphy's Mart, one in Ohio; Fisher's Big Wheel, one in Ohio; Harts, two in Ohio; ShopKo, one in Wisconsin; and Makro, which just opened its second Ohio unit, in Cleveland, earlier this month.

The region is home to 23 discounters, including the nation's largest, K mart, headquartered in Troy, Mich., and operating 471 stores here.

Other discounters based in this region include:

- Meijer, Grand Rapids, Mich., with 48 stores in the five-state area;
- Gold Circle, Worthington, Ohio, 32 units;
- ShopKo, Green Bay, Wis., 34 units;
- Makro, 2 stores;
- Value City, 23 locations;
- Harts, Columbus, Ohio, 28 units;
- The Wholesale Club, Indianapolis, 5 stores;
- Quality Stores, 47 operations;
- Prange Way, Green Bay, Wis., 20 locations.

Among the region's specialty store retailers headquartered here are Highland, Consolidated Stores, Fretter, Audio-Video Associates, Nationwise, Whitlock, Auto Works, Sportmart and Luskin's.

Discounters obviously have faith in this area of the country, as well they should.

Of the $84.9 billion in sales tallied last year at discount stores across the country, stores in the East North Central region garnered 18.6 percent of the total, or $15.7 billion, a 2.3 percent gain over discount sales totals for 1986, according to Richard Mount, president of Mount Economic Consulting of Middletown, N.J.

This year discount store sales in the region are projected to total $16.25 billion, a 3.1 percent increase over 1987, a growth rate that outpaces the nation as a whole. Next year, discount store sales are projected to rise 3.3 percent over the projected 1988 level, to $16.79 billion, Mount said.

The East North Central region includes only five states but has 17.3 percent of the nation's total population, more than any other region in the country. And these residents are among the youngest in the nation.

According to *Sales & Marketing Management*'s 1987 report—which is based on 1986 data, the most recent available—the median age of the people in the East North Central states was just 31.9 years old, compared to the nation's 32.2 years. The population is split almost equally between people aged 0 to 17 and 50 and over.

The region's 17.25 million households have a median household income of $25,579, higher than the nation's $24,632, according to *S&MM*.

The total population in this region, according to the U.S. Commerce Department, grew by only 0.5 percent between 1980 and 1987, to 41.68 million people. That total represents 70.4 percent of the total population in all of the Midwest, which also includes the states of Minnesota, Nebraska, North and South Dakota, Iowa, Kansas and Missouri.

The largest population gain was recorded in Wisconsin, up 2.1 percent to 4.8 million people. The other states had fairly stable population numbers.

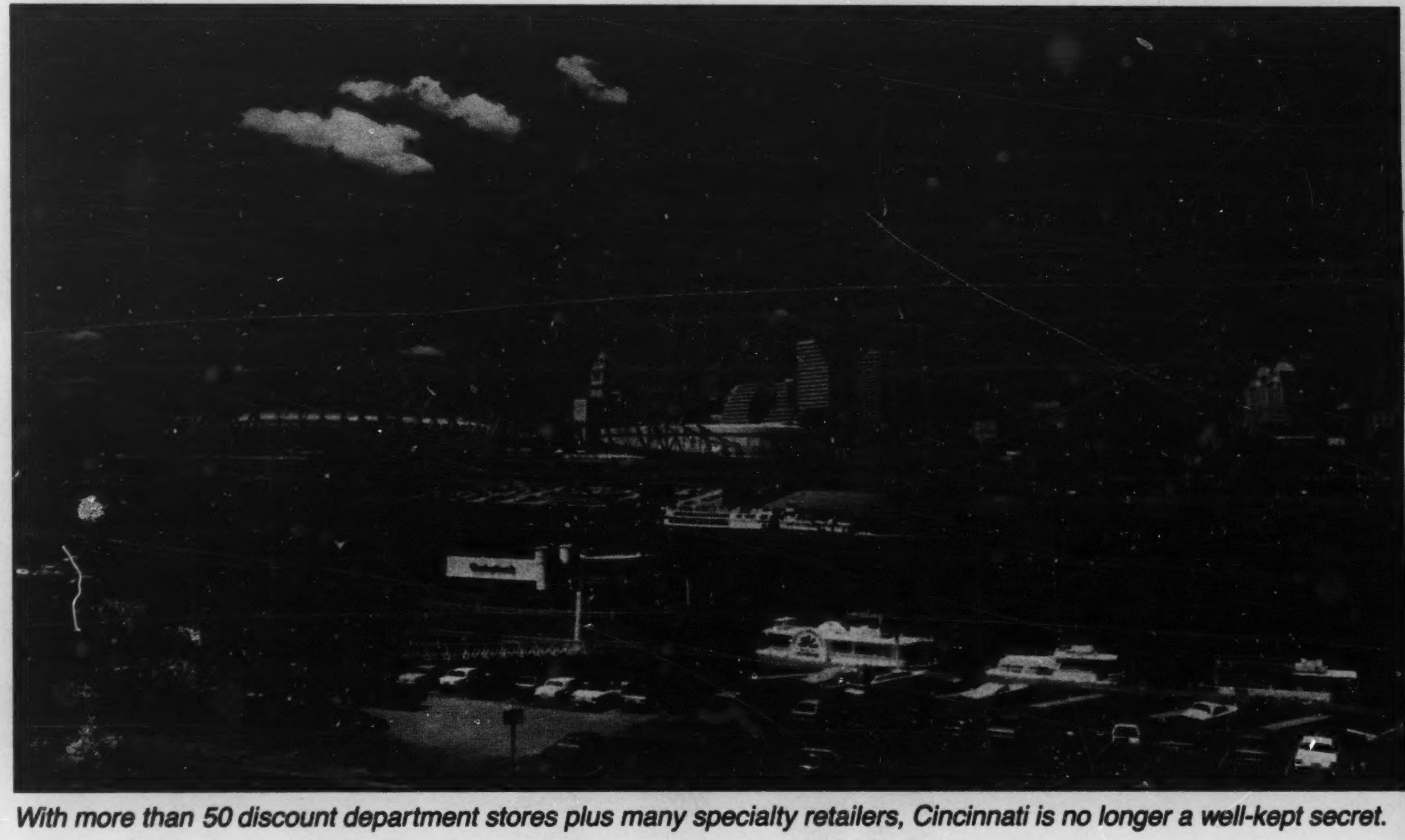
In March, nearly 30.6 million civilians were employed in the five-state region, with an unemployment rate of 7.5 percent, the highest in the nation, after the 8.5 percent unemployment rate in the West South Central states. The rate was down from 7.9 percent in March 1987.

Last year, the unemployment rate in the five-state region was 7.2 percent, compared to 7.9 percent in 1986. Michigan, the second most populous state in the region, had the highest unemployment rate, 8.2 percent, down from 8.8 percent in 1986.

Philip A. Cummins of the Federal Reserve Bank of Chicago, expects income and employment to expand sharply in the Midwest this year in response to declining imports, rising exports, a strong farm sector and a surge in capital spending by manufacturers.

Economic Perspectives, Delaware, Ohio, a market research and management consulting firm, projects the East North Central region will record a 7 percent rise in per capita income between 1988 and 1992, a 2 percent employment gain, and a 5.5 percent increase in retail sales.

Cincinnati:
Many Discounters Say It's a 'Blue Chip' Investment



With more than 50 discount department stores plus many specialty retailers, Cincinnati is no longer a well-kept secret.

CINCINNATI — The locals have nicknamed Cincinnati "The Blue Chip City" for its quality of life, but the label may more accurately describe the city's business climate, particularly its retail trade.

Discount store retailers apparently think Cincinnati is a "blue chip" investment, since the industry has outfitted the city and surrounding suburbs with more than 50 discount department stores plus a broad selection of specialty retailers.

For a population of just 1.6 million in an eight-county area covering 2,620 square miles in three states—Ohio, Indiana and Kentucky—Cincinnati is probably a city that is as close to being overstored as a city can get. But that hasn't slowed the pace any.

K mart has about 15 locations here; Gold Circle, six; Zayre, nine; locally-based Swallen's and Van Leunen's, nine and seven, respectively; and Wal-Mart, one. Makro, which is headquartered here and operates membership warehouse clubs in this market, will expand the five-unit company from this city.

Price Savers Wholesale Warehouse Club, which is owned by locally-based Kroger, a food retailer, will add two units here this summer for a total of three. Biggs, also based here, operating the city's lone hypermarket, has one more hypermarket on the way plus its first grocery-only location now under construction.

Other Discounters in the Market

Marshalls, Service Merchandise, Toys "R" Us, Children's Palace, T.J. Maxx, Value City and a host of others also have multiple locations here.

The city, according to local observers, is no longer a well-kept secret.

"I don't know what it is, but it [Cincinnati] is a hot bed people come to," observed Stan Johnson, president of Van Leunen's, based here since 1954.

Van Leunen's has contributed substantial excitement to the local retail scene. In recent years the seven-unit discounter has spun off two specialty store operations: seven-unit All About Sports and six-unit Pets and Such. Another specialty operation is "a possibility," Johnson said. "Cincinnati," he added, "is a city of great opportunity."

Located on the Ohio River in southwestern Ohio, the Cincinnati metropolitan area has a diverse economy. It is so diverse, in fact, that regardless of what people buy throughout the nation, Cincinnati claims to have made some part of the finished item.

Cincinnati: Discount Store Count

Chain	Stores
K mart	15
Zayre	9
Swallen's	9
Van Leunen's	7
Gold Circle	6
Value City	3
Murphy's Mart	3
Biggs	1
Price Savers	1
Wal-Mart	1
Harts	1
Makro	1
Total:	57

Source: DSN research

Cincinnati has a labor force of 677,100 people, 19 percent of which are employed in the retail sector. The unemployment rate was 5.9 percent in 1987 compared to 7 percent for all of Ohio.

Cincinnati is home to 13 of the nation's Fortune 500 companies, including General Electric Aircraft Engine and Procter & Gamble, the city's top two employers.

Described locally as a "conservative" city, Cincinnati also is a fairly young and prosperous community. The median age is 31.5 years; average household income is $33,116; and the cost of a median-priced home is $80,900, according to the most recent statistics available from the Greater Cincinnati Chamber of Commerce.

Department store sales for the area rose 4.3 percent last year, to $1.192 billion from $1.143 billion in 1986. Based on sales percentages of national discount department stores, which accounted for 45 percent of department store sales in 1987, discounters tallied about $536 million in 1987, up from $514 million in 1986, according to the Census Bureau's "1987 Monthly Retail Trade Report."

A Cincinnati shopper profile based on the Census Bureau's "1985 Diary Survey" of average weekly expenditures revealed that:

- 62 percent of Cincinnatians own their own home, 19 percent without a mortgage;
- 56 percent are high school graduates, and 38 percent finished college; and
- 85 percent own at least one vehicle.

These same consumers, who averaged 45 years of age, spent:

- $1,125 on apparel, nearly one-third of which was spent on women's and girls' fashions;
- $744 a year on household furnishings and equipment, including furniture and appliances;
- $55.77 a week on food;
- $20 a year on jewelry and watches;
- $14 a year on small appliances and miscellaneous housewares.

"We're a steady, dependable, high-quality kind of a city," said Roger Ruhl, vice president, communications of the Chamber of Commerce. "We're not a boom or a bust city. We have no high-highs, or low-lows. We're the kind of place where people wear navy blue pin-striped suits and white shirts."

More than 30 new companies located or relocated their business in Cincinnati last year, and over 120 local businesses expanded their operations in this metropolitan area, including Delta Air Lines.

Cincinnati also has successfully absorbed the 4,200 people who were laid off when a local General Motors auto assembly plant closed recently. Chamber of Commerce officials also expect the community to be able to do the same if GM follows through on its threat to idle another 2,000 workers at another plant, said Ruhl.

Greater
Cincinnati
It's Blue Chip SM

Chamber of Commerce officials also expect that if locally based Federated Department Stores, recently bought by the Campeau Group of Canada, is streamlined, the city will be able to handle that setback, too, albeit unhappily. Federated employs 530 people at its headquarters facility.

At the same time, retail shopping areas in the area are expanding, and discounters are participating in the growth.

In the last few years, nearly all the discounters operating in the city have added stores to this market, attracted by the area's demographics.

"Cincinnati should be an exceptional market for us because of its demographics," said Phil Sutterfield, vice president of merchandising at Price Savers Wholesale Warehouse Club. "It has the right population." Even after Price Savers opens its two new units this summer, Sutterfield said there will still be room for additional stores here.

Van Leunen's plans to expand its All About Sports chain in the Cincinnati market, growing to about 20 to 25 stores within a 150-mile radius of the city, said Johnson. These growth plans and others should conform well to the area's shopping habits.

According to a 1986-'87 consumer shopping prospectus conducted by the *Cincinnati Enquirer*, the local newspaper, discount stores are a very popular place to shop. In fact, of 12 department stores mentioned as places people shop most often, seven were discounters and K mart was the No. 1 choice.

K mart also topped the list as the discount department store shopped most often by the 1,404 survey respondents, a shopping pattern Jerry Silvers, the *Enquirer*'s research director, doesn't think has changed since the survey was taken. Another market study is planned for spring 1989, he remarked.

These results in no way are indicative of retail sales activity, Silvers explained.

K mart was also listed as shoppers' favorite discount store, followed by Gold Circle, Meijer—which has since withdrawn from the market—Van Leunen's, Value City, Swallen's and Zayre.

When it comes to variety and selection and best value for the money, consumers rated K mart at the top of those lists, too, followed by Gold Circle in second place. Swallen's came in third, followed by Meijer, Van Leunen's, Bigg's, Value City, Service Merchandise and Zayre.

IMRA
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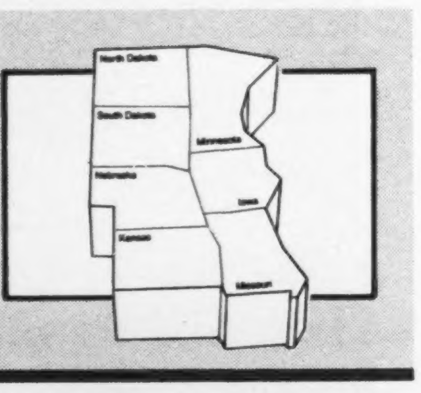
1988

Regional Analysis:
West North Central

Minnesota • Iowa • Missouri • North Dakota
South Dakota • Nebraska • Kansas



Turnaround Predicted in Heartland

The country's rural heartland economy, though still recovering from the Great Farm Depression of the '80s, is on the verge of a turnaround, thus presenting discounters with possible growth opportunities going forward.

Yet while there is unquestionably some light at the end of the depressed economic tunnel for the West North Central states, this region of the country, very much dependent on agriculture and manufacturing, remains a trouble spot when compared with most other regions.

The U.S. Census Bureau and other agencies define the West North Central region as consisting of Iowa, Kansas, Minnesota, Missouri, Nebraska and North and South Dakota, a seven-state grouping that represents 7.4 percent of the total population of the United States.

Farms, Manufacturing Reviving

In addition to the farm economy showing some signs of revival (principally due to government subsidies, according to economists and analysts), a rise in exports due to the declining value of the dollar has spurred manufacturing job and output growth throughout the region.

For the nation in February, there was a 1.5 percent increase in manufacturing jobs over February 1987. However, during that same month, Iowa was up 7.3 percent, Nebraska saw a 7.1 percent rise, South Dakota was up 5.8 percent, North Dakota rose 4.6 percent, Minnesota was up 3.7 percent, Kansas rose 3.1 percent and Missouri increased 1.2 percent.

However, total retail sales in January (the most recent month available from the U.S. Department of Commerce) were up 7.6 percent for the entire country, while the West North Central states rose by just 6.7 percent, below the national average.

Slight Decline in Population

Population in the region declined last year by 1.4 percent from 1986 levels. Total population for the region in 1987 was 17.6 million, compared to 17.9 million in 1986. The most populous state, Missouri, is home to 5.1 million people, with Minnesota next at 4.3 million. The remaining states, in descending order, are Iowa, 2.8 million; Kansas, 2.5 million; Nebraska, 1.6 million; South Dakota, 709,000; and North Dakota, 672,000.

Effective Buying Income

While the region represents 7.4 percent of the total U.S. population, it represents a bit less—7.1 percent—of effective buying income.

Discount store sales for the region hit $8.35 billion last year, which represents a 2.1 percent increase over 1986. That was slower growth than 1985 to 1986, which saw a 2.6 percent rise.

However, according to forecasts released by Richard Mount, president of Mount Economic Consulting, Middletown, N.J., exclusively for *DSN*, discount store sales for the region will hit $8.6 billion this year, a 3.0 percent jump. Mount predicts discount sales growing even faster in the following year, with an increase over 1988 of 3.3 percent expected.

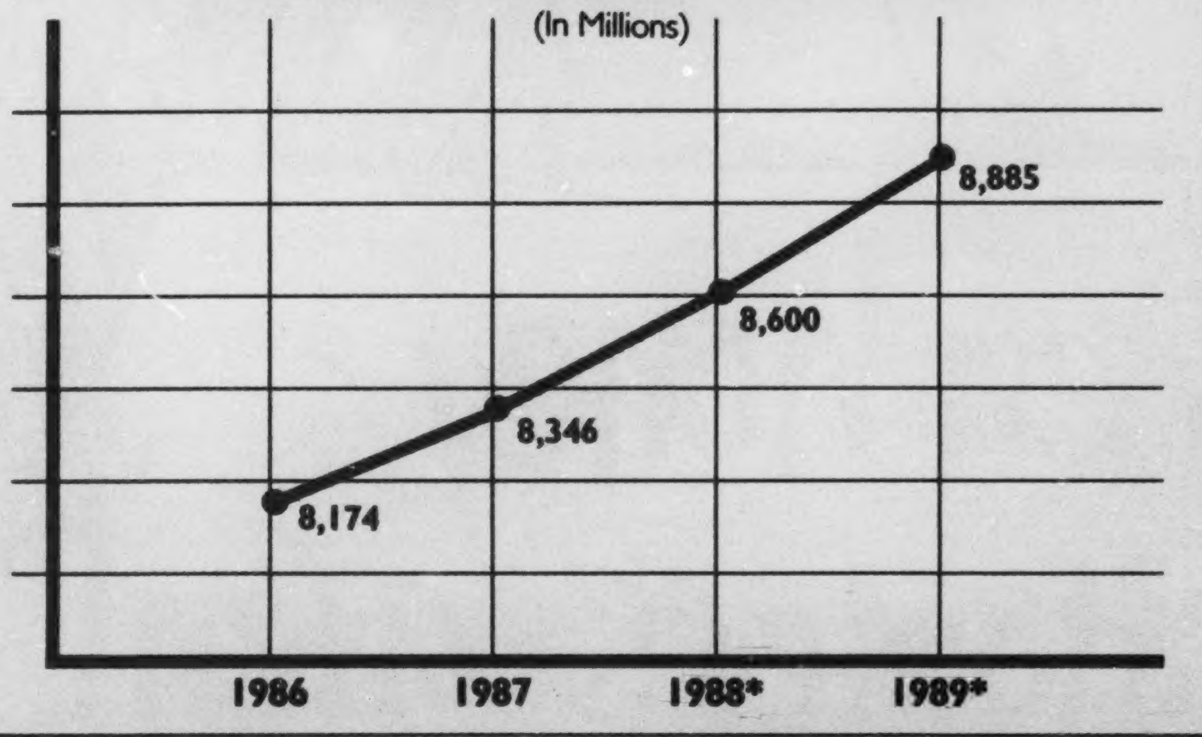
However, Mount said the figures might be deceiving. "This is one of the weakest regions right now, so it will be showing healthy gains because it has more of a way to go," said Mount.

West North Central Snapshot

The agricultural sections of the West North Central states are beginning to recover now, not so much from higher prices as from government programs. Missouri, with its concentration in auto assembly plants, may be the laggard this year and next. Minnesota enjoys a high-tech sector that should strengthen throughout this period.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Iowa	4.2%	6.5%
Kansas	2.5	5.5
Minnesota	3.3	5.5
Missouri	1.9	6.1
Nebraska	2.1	4.9
North Dakota	2.0	6.4
South Dakota	1.3	4.2
Total:	2.7	5.6

West North Central Discount Store Sales



*projected

Source: DSN, Mount Economic Consulting

The region is home to six of *DSN*'s top 100 discount chains, including Target, Minneapolis; Venture, O'Fallon, Mo.; Western Auto, St. Louis; Pamida, Omaha, Neb.; and Best Buy, also Minneapolis.

Dominating the region, however, in terms of store count, are K mart, Wal-Mart, Dollar General and ALCO, in addition to Pamida and Target.

Even though the region as a whole has been depressed up until very recently, there have been several bright spots. Hot growth cities in the region—based on job generation, rate of new business start-ups and young companies based there with high growth rates—include Minneapolis/St. Paul, Minn., and Topeka and Wichita, Kan.

In fact, Bentonville, Ark.-based Wal-Mart opened its second Hypermart USA in Topeka earlier this year and unveiled a Wal-Mart SuperCenter (essentially a hypermarket without the attached specialty shops and services) in Washington, Mo.

And, the nation's second largest discounter will be opening yet another Hypermart USA in Ferguson, Mo., which is just outside of St. Louis. Wal-Mart is also planning to open three Sam's Wholesale Clubs in St. Louis, as well as one in Lenexa, Kansas.

Even though the West North Central region as a whole has been depressed up until very recently, there have been several bright spots. Hot growth cities—based on job generation, rate of new business start-ups and young companies with high growth rates—include Minneapolis/St. Paul and Topeka and Wichita, Kan.

West North Central Region: Discount Store Count

Chain	Stores
K mart	199
Wal-Mart	168
Pamida	108
Dollar General	90
Target	58
ALCO	57
ShopKo	30
Gibson's	27
Venture	24
Best Products	20
Chaffin's	17
Service Merchandise	11
Sam's Wholesale Club	8
Sam's Discount/ Save Mart	8
Jack's Discount	7
Stockton's	7
Grandpa Pidgeon's	5
Home of Economy	5
The Wholesale Club	4
Holiday Plus	4
Price Savers	2
Zayre	1
Hypermart USA	1
Stein Mart	1
PACE	1
Ace Mart	1
K's Merchandise	1
Smith's Discount	1
Red-X General	1
Skagway	1
Total	**868**

Source: DSN research

Other discounters that have announced openings in the region for the year include Abilene, Kan.-based ALCO and Grandpa Pidgeon's, a regional chain based in St. Louis.

At 199, K mart operates the most units of any discounter in the region.

Yet Robert Hayes, chief economist at Troy, Mich.-based K mart Corp., called the West North Central "not a good expansion region."

However, he added that a six-year pent-up purchasing demand coming off the farm depression might break in 1989 or 1990 as faith in stabilizing farm prices takes hold.

Frank Schlosser, president and chief operating officer at Pamida, said, "It's [the region] a negative growth area right now." But he added that "the farm economy is improving."

Omaha, Neb.-based Pamida operates 108 units in the region, making it the third largest general merchandise discounter in the seven state area after K mart and Wal-Mart.

Future population growth for the region, according to U.S. Census Bureau projections, will be moderate through the year 2010. From a projected 17.65 million population for the region by the end of this year, the West North Central will hit 17.72 million in 1990; 17.83 million in 1995; 17.85 million in the year 2000; and 17.91 million in 2010.

The states gaining the most in population from 1980 to 1990 will be Minnesota (up 6.1 percent), Missouri (up 5.6 percent) and Kansas (up 5.4 percent). The big population loser will be Iowa, down 5.3 percent.

In fact, three of the seven West North Central states are being projected to lose population from 1990 to 2000. They are Iowa (down 7.6 percent), North Dakota (off 4.7 percent) and Nebraska (down 2 percent).

Minneapolis/St. Paul:

Twin Cities Shape Up as Retail Battleground

Minneapolis is thriving, with unemployment below the national average and per capita income well above the average.

MINNEAPOLIS — The Twin Cities, the affluent capital of Minnesota and home to Target Stores, is evolving from a regional retail market into an open, national market.

With a robust local economy that is spurring a large increase in retail space, Minneapolis/St. Paul is shaping up as a major retail battleground.

Unlike much of the West North Central region, greater Minneapolis is thriving, with unemployment below the national average and per capita income well above the national average.

"This is an innovative and competitive retail market," said Richard Cardozo, professor of marketing at the University of Minnesota. It promises to be even more competitive in the near future, especially at the upper end of the retail spectrum.

Long dominated by Dayton's, the Twin Cities have either recently added or will soon add Bloomingdale's, Neiman-Marcus, Nordstrom and Saks Fifth Avenue department stores.

It appears Twin Cities consumers can support all the new retail selling space coming on line, both in downtown and in several suburban mall projects currently under development. While Minneapolis ranks as the 13th largest metro area in the United States, with a population of 2.3 million (for greater Minneapolis/St. Paul, 1986), it ranks number nine in the country in general merchandise sales with $2.45 billion in 1986, according to *Sales & Marketing Management* magazine.

"People here buy department store-type merchandise with two fists," said Steve Fox, consulting business editor for *Twin Cities* magazine.

Improving Metro Area

Not surprisingly, then, Minneapolis/St. Paul is an improving metro area, becoming the 34th highest metro area last year compared to 49th in 1986. The ranking (from *Inc.* magazine) takes into account three major factors: job generation, rate of significant new business openings, and the percentage of young companies enjoying high growth rates.

Norstar Banks conducted a survey of over 50 Twin Cities bankers in April, asking them to rate, among other things, the general economy, said Larry Wiph, regional economist at Norstar. As many as 90 percent labeled the economy good to very good, which was "the highest level in the last five years," said Wiph.

"We tend to have shallower dips and lower peaks compared to the rest of the country," Cardozo said.

Asked to predict what the state of the economy will be over the next six months, 80 percent of the bankers said good to very good. Wiph also said that overall retail sales and capital spending "got high marks" from the bankers surveyed.

In addition to Dayton Hudson, Target's parent, Minneapolis is also home to such Fortune 500 companies as Super Valu Stores, 3M, Honeywell, Pillsbury, General Mills and Control Data.

Minneapolis is dominated by two general merchandise discounters—K mart and Target—with 19 units and 18 units, respectively.

"Even though K mart might have one more unit, Target is dominant in terms of identity and volume," said Neal St. Anthony, a business reporter at the Minneapolis *Star-Tribune*. "Target also has the more upscale image, but K mart is definitely competitive in the market."

St. Anthony added that the locally based Best Buy Superstores, now with 10 stores in the region, has "made a profound impact on Twin Cities retailing." He said that the discount CE chain has more than tripled its square footage in the area over the past four to five years.

Even though Costco just closed its two Minneapolis clubs last month, St. Anthony said "Wholesale clubs, in general, do fine here. I think Costco was never committed to the long term in the Midwest."

The discount segment has become more competitive over the last couple of years, said George Hite, spokesman for Target.

He admitted that Best Buy is now "challenging us in the home electronics segment." He also said that Highland Superstores, another CE chain, and Toys "R" Us have a major presence. Mainstreet, the soft goods specialist, will open its first unit in the area later this year.

Hite said that even though the competition is stiffer, the discounter's "most successful group of regional stores" are the 18 in Minneapolis/St. Paul.

Target, which opened its first unit in Minneapolis in 1962, will open its 19th store in the Twin Cities area in 1989, said Hite. He added that Target has been approached by city officials to add a store downtown, but the retailer has declined.

Indeed, Fox said that downtown is looked upon as "a haven for the rich; that's the image and attitude," and Fox said it's becoming politically embarrassing for Minneapolis city officials, who are making concerted efforts to get discounters downtown.

Sears, JC Penney and Montgomery Ward have at least five units each in the Twin Cities area, according to St. Anthony, but none are downtown. He added that Penney closed its downtown store in 1986. Lack of enough cheap parking—especially since discount shoppers are more sensitive to high-priced parking—and high rents have prevented popular-priced retailers from entering downtown.

Subsidy May Be Possible

But St. Anthony said that the city might be willing to subsidize lower-end retailers in order to get a popular-priced retail presence downtown.

The average downtown Minneapolis worker, according to Fox, spends nearly $1,800 per year on retail purchases in the downtown trade sector. (There are approximately 125,000 workers). Retail sales in downtown alone hit $475 million in 1985.

According to Impact Resources, a consumer data base company, 34.2 percent of Minneapolis/St. Paul discount store shoppers have annual household incomes of $20,000 to $39,999; 16 percent have household incomes of $50,000 and over per year. The average household income is $30,900.

For the purposes of the study, discount store shoppers were defined as listing Target and/or K mart as stores they shopped in for general merchandise, which doesn't rule out having shopped in department stores.

In fact, 19.8 percent of discount store shoppers said they prefered Dayton's for men's apparel. The next most popular choice was Target, with 10.2 percent, followed by Penney, 6.9 percent; Sears, 5.2 percent; and K mart, 4.3 percent.

For women's apparel, Dayton's was No. 1 with 18 percent and Target again was No. 2 with 8.8 percent, followed by K mart, 4.6 percent; Penney, 3.8; and Marshalls, 2.4 percent.

Target topped all comers in children's apparel, with 12 percent of Minneapolis discount store shoppers choosing that retailer over others in that category. Dayton's came in at No. 2, with 5.5 percent, and K mart was No. 3 with 4.4 percent.

In shoes, Dayton's was No. 1 at 9.3 percent; then Payless Shoes at 7.9; Kinney at 5.4; and Target at 5.3 percent.

Store preferences for health and beauty aids among Minneapolis discount store shoppers were: Target, 27.3 percent; Snyder Drug Store, 8.2 percent; and K mart, 5.1 percent.

For TVs and VCRs: Best Buy at 53.8 percent was the most popular, followed by cataloger Best Products at 5.9 percent. Target was 3.7 percent and K mart didn't even make the list.

For stereo equipment: Best Buy, 48.9 percent; Best Products, 5.6 percent; and Target, 2.3 percent.

Home improvement/hardware: Menards Cashway, 11.4 percent; Knox Lumber, 7.9 percent; Sears, 6.4 percent; and Target, 3.1 percent.

Minneapolis discount stores shoppers said they would be purchasing the following items over the next year: furniture (15.6 percent), TVs/VCRs (10.3 percent), home appliances (9.9), and stereo equipment (8.2). The research also showed that 10.1 percent said they buy products by catalog/direct mail "regularly," and 52.8 percent said "occasionally;" just 1.4 percent said they purchase products from TV shopping shows "regularly," with 7.4 percent saying "occasionally."

Minneapolis/St. Paul: Discount Store Count

Chain	Stores
K mart	19
Target	18
Holiday Plus	4
The Wholesale Club	4
Price Savers	2
Total:	**47**

Source: DSN research

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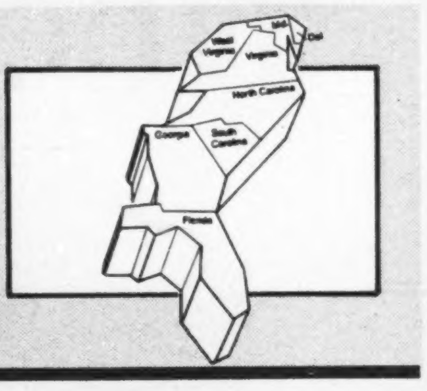
1988

Regional Analysis:
South Atlantic

Delaware • Maryland • Washington D.C. • West Virginia
Virginia • N. Carolina • S. Carolina • Georgia • Florida



Sunny Future in Store for Discounters

Nearly 2,800 retail outlets representing most of the nation's top discount and specialty retailers are located in the South Atlantic, and more are sure to follow.

Discounters are simply following the nation's migration pattern to the sunny South Atlantic, where the cost of living is as moderate as the climate. That migration is expected to continue through the end of this century.

The South Atlantic region is an area with a 1987 projected population of 41.68 million people, or 17 percent of the nation's total population, according to the U.S. Census Bureau.

This region is home base to six of the nation's top 100 discounters: Best Products and Circuit City, Richmond, Va.; Rose's, Henderson, N.C.; Heck's, Nitro, W.Va.; Family Dollar, Charlotte, N.C.; and Brendle's, Elkin, N.C.

And, this is where K mart is building its first hypermarket, American Fare, to open late this year in Stone Mountain, Ga., an Atlanta suburb.

Revival of Manufacturing Sectors

Over the past five years, the region has been strengthening and varying its service base. A revival in the region's textile, apparel, carpeting, paper, chemical and furniture manufacturing sectors has been stimulating numerous local economies.

Increased activity in the manufacturing sector—sparked by the declining value of the dollar,which has raised the cost of imports and stimulated American exports—in concert with the region's expanding service economy is creating heightened demand for all kinds of products, from food to housing and home furnishings.

Among the "hot" markets in this region are Atlanta; Baltimore; Richmond and Norfolk, Va.; the Research Triangle in North Carolina; Jacksonville, Fla.; and the coastal areas of South Carolina.

This growth, particularly among blue collar workers, is expected to swell retail sales, especially at discount stores. This year discount store sales should exceed 1987 levels, according to forecasts conducted exclusively for *DSN* by Richard Mount, president of Mount Economic Consulting, Middletown, N.J.

Discount store sales in the South Atlantic region will rise 3.1 percent in 1988, to $13.53 billion, followed by a 3.4 percent sales increase in 1989, to just under $14 billion. This projected increase will place the South Atlantic region on a growth pattern that is exceeded only by the East South Central and the Pacific regions.

The South Atlantic is, quite frankly, "one of the fastest growing [regions in the country] and will continue to be," asserted Mark Zandi, director of regional forecasting for the WEFA Group, Bala Cynwyd, Pa., an economics reporting service.

The region's population grew by 12.8 percent between the 1980 census and last year, according to the U.S. Commerce Department.

The most populous state in the region is Florida, which is also the fourth most populous state in the nation behind California, New York and Texas. Florida had 12 million residents last year, an increase of 23.4 percent between 1980 and 1987, outpacing all but Arizona, Nevada and Alaska.

Georgia was second to Florida's population spurt, up 14 percent, followed by Virginia, which recorded a 10 percent increase.

The fastest growing metropolitan area of 1 million people or more between 1980 and 1986 was Atlanta, up 20 percent. Tampa/St. Petersburg, Fla., tied for second place with San Antonio, Texas, up 19 percent.

Only Washington D.C., and West Virginia lost population between 1980 and 1987, down 2.6 percent and 2.7 percent, respectively. Despite that decline, a number of industry observers noted that West Virginia holds expansion possibilities for discounters.

Lloyd Wickett, director of operations for K mart's Eastern region, explained that when wages are low, as they are in West Virginia, people tend to spend a greater portion of their wages. West Virginia, he said, has growth potential for the nation's largest discounter. K mart, said Wickett, will be adding more stores in the South Atlantic region this year than the discounter did in 1987.

Among the discounters that have already announced store additions in this region are BJ's Wholesale Club, PACE Membership Club, Bradlees, Rose's, Wal-Mart, Sam's Wholesale Club, Murphy's Mart, and Glosser Brothers, operators of Gee Bee stores.

The greatest number of the region's inhabitants, 11 million—according to *Sales & Marketing Management*'s 1987 report, which was based on 1986 data—were age 50 and over, followed by 10.3 million, age 0 to 17; 8 million who were 35- to 49-years-old; 7.1 million, 25 to 34; and 4.7 million, 18 to 24.

Maryland Has Highest Income

The median age in this diverse region was 32.9 years, reported *S&MM*. These consumers had a median household effective buying income of $23,400, with the highest EBI recorded in Maryland, $30,687. The lowest, $18,615, was in West Virginia.

The region had a total civilian labor force of 20.981 million in March, the U.S. Department of Labor reported, and an unemployment rate of 4.7 percent, down from 5.7 percent one year ago. That rate is equal with the three-state Mid-Atlantic region and higher only than the six New England states. In fact, the unemployment rate here was the lowest in the decade.

Throughout the region, unemployment rates varied from a low of 3.2 percent in Delaware—which was tied with Massachusetts for the lowest rate in the nation last year—to a high of 10.8 percent in West Virginia, the third highest in the nation.

Last year, 18.9 percent of the total non-agricultural labor force was employed in retail trade, according to Wayne D. Gantt, economist with Sun Trust Banks, Atlanta, up from 17.4 percent in 1982, 16.1 percent in 1973 and 0.8 percent higher than the nation as a whole.

Florida employed the greatest percent of retail workers, according to Zandi, 21.8 percent, up from 20 percent in 1973. South Carolina recorded the greatest increase, from a retail employment of 13.7 percent in '73 to 18.6 percent today.

The prosperous South Atlantic had three of the nation's top housing markets in 1987: Atlanta, Washington D.C., and Tampa/St. Petersburg.

Between 1980 and 1990, the population in the South Atlantic is projected to grow by 18.4 percent, to 43.7 billion, the Census Bureau reported. The largest increases will be recorded in Florida, which is projected to swell 31.5 percent, and Georgia, up 22 percent.

Between 1990 and 2000, the region will grow another 14.3 percent to just over 50 million people. The growth will be led by Florida and Georgia, at 19 percent and 20 percent, respectively.

South Atlantic Snapshot

The diversified South Atlantic states are enjoying the fastest growth in employment in the country.

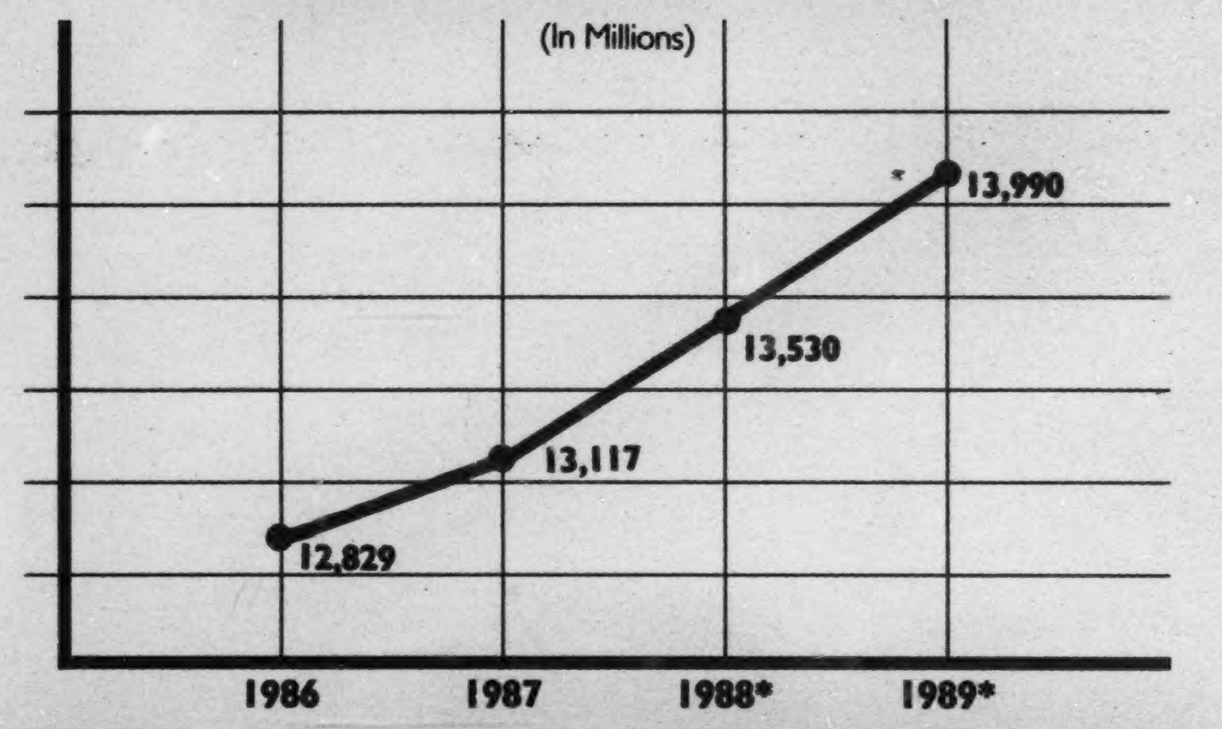
Tourism is a major industry in the region, and the weakness in the dollar is increasing domestic travel. High-tech industries are strong in Florida, North Carolina, Virginia and parts of Georgia. Defense is also a major part of many local economies. Light manufacturing is benefiting from the decline of the dollar.

West Virginia remains the soft spot because of its coal mining.

Through 1989, the South Atlantic region should grow somewhat faster than the national average due to tourism and high-tech industry.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Delaware	6.1%	4.8%
District of Columbia	3.1	5.8
Florida	6.0	5.0
Georgia	2.6	6.0
Maryland	3.8	5.1
North Carolina	4.3	4.2
South Carolina	4.0	5.6
Virginia	4.6	4.1
West Virginia	1.9	13.2
Total:	4.3	6.0

South Atlantic Discount Store Sales



*projected

Source: DSN, Mount Economic Consulting

South Atlantic Region: Discount Store Count

Chain	Stores	Chain	Stores
Family Dollar	690	Bradlees	41
Dollar General	424	Best Products	40
K mart	423	Murphy's Mart	33
Rose's	190	Brendle's	32
Wal-Mart	178	Gold Circle	29
Zayre	133	Hills	17
Sky City	68	Magic Mart	13
Service Merchandise	65	PACE	12
Maxway	59	W. Bell	12
Heck's	51	Bargain Town U.S.A.	10
Ames	46	Others	140
L. Luria	43	Total:	2,749

Source: DSN research

Fort Lauderdale:
Discounters Soak Up So. Florida's Sun and Dollars

As one of the hottest retail markets in the country, Fort Lauderdale in Broward County is a bitterly competitive and somewhat overstored market.

FORT LAUDERDALE, Fla. — Southern Florida, reeling under a population explosion during the 1970s from which the area has never recovered, is one of the hottest retail markets in the country. However, it is a bitterly competitive, somewhat overstored market, and retailing newcomers might have problems overcoming the local loyalty to entrenched retailers like L. Luria catalog showrooms, Burdines department stores and Publix supermarkets.

The Fort Lauderdale area has a little over 1.1 million residents (as of 1986), a very slight (in relation to Florida growth as a whole) increase of about 13 percent over 1980, and Fort Lauderdale proper actually lost population during that period. However, growth was so dramatic during the '70s that the area's highway system has virtually collapsed. Recently, the population has started growing again, and by 1990, should total nearly 1.5 million.

While population increases were relatively modest, retail growth has been explosive. Among others, BJ's Wholesale Club, Sports Authority and Branden's have located here, and others like K mart, Luria and Zayre have expanded their operations in the area. Other major players in the market are Richway/Gold Circle, Marshalls and a wide selection of specialty retailers like Toys "R" Us and T.J. Maxx.

A Smaller Retiree Population

From a visitor's perspective, Lauderdale seems to have a smaller retiree population than other major Florida cities, which may partly explain the success of retailers like Sports Authority and Branden's, which appeal primarily to a younger, affluent customer base. And despite median income figures which place the area significantly below the national average (median family income was a little over $19,000 in 1985), there seems to be no shortage of those target shoppers.

That may be partly due to the changing makeup of the city's population. Since 1980, over half of the 100,000 or so new residents were in the prime 25- to 44-year-old age group, with seniors (over 65 years of age) the second fastest growing group. The younger group is, of course, a discount retailer's dream, demographically speaking.

Seniors, particularly in the Gold Coast area, where land prices are traditionally much higher than in most other Florida coastal areas, also tend to be good customers.

Contrary to common perception, senior citizens are not, as a rule, living on meager social security checks. Many are very well off, and they have become a potent consumer group, particularly at the discount store level.

The recent opening of Branden's, the home fashions and housewares chain operated by Dayton Hudson, was a dramatic example of just how aggressive Fort Lauderdale shoppers can be. With little more than a full-page newspaper ad on opening day and a few spot radio ads, the outlet drew a crowd which could have overwhelmed a hypermarket.

The new retailer is located in a brand new mall, and it was the only store open that day. Virtually every parking space in the entire mall was taken, with traffic jams outside caused by a backup of shoppers trying to find a parking space. Average waiting time at the cash registers was about two hours, a figure which, if anything, understates the pandemonium ruling that day.

An assistant store manager said that while she expected a crowd, she was overwhelmed by the actual turnout. She credited the attendance to "customer knowledge" of Branden's (another store is located in Miami). A local paper explained the phenomenon by saying "people here just love to shop."

As prosaic as that explanation appears, it is probably very close to the truth. At times, Fort Lauderdale seems to be one big "Miracle Mile," with discounters, specialty stores, department stores, flea markets and hundreds of other retailers crowded in cheek to cheek. Yet all of them are busy and customers are buying.

The activity is partly explained by southern Florida's tourist trade, which attracts millions of visitors each year. Many of these rent houses, cabins, apartments and efficiency hotel rooms, and therefore often need housewares, beach merchandise, food and a wide variety of other goods.

However, that trade is limited mainly to areas near the beaches, and most discounters are located near the faster growing areas inland, on either side of the Florida Turnpike. Evidently, Fort Lauderdale discounters gain only somewhat from the tourist trade.

In the past decade, the South has been the fastest growing region in the United States, more than doubling its retail sales in the 10 years since 1978. The South Atlantic section of the South, which includes Florida, was the hottest area within the region.

Florida itself has grown to become the fourth largest state in the union in retail sales, up from seventh in 1978. The Miami/Fort Lauderdale metro area accounted for over 25 percent of the overall sales, and was the fastest growing sales area within the state.

Overall, Florida retail sales jumped 5 percent over last year, but discounters were up some 11.1 percent. At the same time, sales over the South cooled off, showing only a mediocre increase compared to the Northeast, which has become a new retail hot spot.

However, the South Atlantic region turned in a strong showing, finishing behind only resurging New England in retail sales growth. According to Commerce Dept. data, which are lower than other industry estimates, discount store sales in January were roughly $750 million vs. about $700 million in January of 1987. Florida discount sales were roughly $295 million of that January total, up from $265 million the year before.

About $65 million of that was in the Miami/Fort Lauderdale area, with Fort Lauderdale accounting for $28 million. Overall, the metro area showed a 2 percent rise in retail sales over last year, with nearly all of the growth coming from Fort Lauderdale.

These figures reflect the common perception that the Sunbelt is cooling off after a decade of record-breaking growth. While that perception is basically accurate, the slowdown has been in relative terms only. Southern Florida is still a strong retail market, and projections of population and income increases over the next decade indicate that it may explode all over again.

A good deal of the slowdown can probably be traced to the building boom of the mid-'70s. Beach areas were quickly saturated with new condominium developments, many of which remained un- or under-occupied through the recessionary times of the late '70s and early '80s. Now those areas are fully occupied, and full-scale construction of middle- and upper-income housing has just started inland.

Since it has become apparent that people *will* pay to live in this less desirable area, the seeds have been sown for another land boom. Florida remains a destination state for many Northerners, with its climate and relatively low cost of living the main drawing cards. A house or condominium in Fort Lauderdale remains a real bargain by Northeastern and Midwestern standards.

The result should be a sharp increase in population in the Fort Lauderdale market, with an attendant increase in retailing in general and discounting in particular.

According to 1985 figures released by the Greater Fort Lauderdale Chamber of Commerce, Broward County (which comprises Fort Lauderdale, Hollywood, Pompano Beach and several smaller locales) ranked fourth in the state in population and 40th among 317 U.S. metro markets.

In terms of disposable income, however, the area was significantly below the U.S. average. In 1985, effective buying income in the county was $16,237, only about 60 percent of the national total. However, when nearby Dade and Palm Beach counties were factored in, the total was nearly 70 percent *above* the national average.

Broward County: Discount Store Count

Chain	Stores
K mart	9
Zayre	8
L. Luria & Son	7
Service Merchandise	6
Richway	4
Best Products	2
BJ's Wholesale Club	1
Costco	1
Wholesale Plus	1
Total:	**39**

Source: DSN *research*

The disparity in income is rather easily explained; Broward County contains relatively few enclaves of the truly wealthy, as opposed to, say, Miami or West Palm Beach. The town is almost relentlessly middle class; a perfect discount marketplace.

In 1985, Broward County retailers sold $891 million in general merchandise, $557 million in home furnishings, $406 million in apparel, $296 million in building materials and $291 million in drugs. Presumably, discounters accounted for large portions of most of those products; estimates are that the percentage ranges up to 50 percent.

That's a sizeable market by anyone's standards. According to estimates of population, housing and income growth over the next decade, that market should virtually explode by the year 2000.

Average waiting time at the cash registers on opening day at the Branden's in Fort Lauderdale was two hours. (DSN photo)

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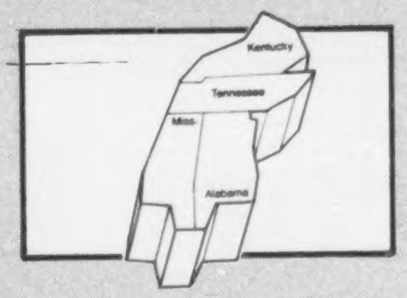
Regional Analysis:
East South Central
Kentucky • Tennessee • Alabama • Mississippi



Bleak Economy Begins to Brighten

The East South Central region is inching toward economic recovery, but compared to the rest of the country, this four-state area—Tennessee, Alabama, Kentucky and Mississippi—is a mile away from the U.S. average unemployment rate, economic vigor and income level.

Moving with the slow current of growth are discounting's 80,000-square-foot giants along with 9,000-square-foot dollar outlets; and both groups are successfully capitalizing on the other's shortcomings.

The region resembles the craft of its early settlers who realized their Conastoga wagons could not climb the Appalachians. Like a patchwork quilt, the fabric of the area is a collage of striking contrasts: wealthy and impoverished, urban and rural, high-tech scientific industries and "scratch" farming behind a house without electricity.

By cultivating service industries, attracting foreign investors, reaping the benefits of the resurgence in domestic manufacturing, and promoting workforce education, the states of the East South Central region are showing signs of a turnaround.

In urban areas, like Louisville and Lexington, Ky.; Memphis and Nashville, Tenn.; Jackson, Miss.; and Huntsville, Ala., the development of medical, technical and service industries has triggered an economic rebirth.

> ***By cultivating service industries, attracting foreign investors, reaping the benefits of the resurgence in domestic manufacturing, and promoting workforce education, the states of the East South Central region are showing signs of a turnaround.***

In the coal country of Kentucky's Appalachian Mountains and rural Mississippi, people are letting go of the hope that demand for the area's abundant coal resources will rise in the near future. The realization has encouraged economic planners to turn their attention to improving educational standards and exploring new industries.

Ron Morgan, branch manager of general research at the Kentucky Commerce Cabinet said the government has tightened school achievement standards in hopes that an educated workforce will encourage new industries to make the state their home base.

"Significant educational reforms have been make by the state to enforce accountability of grade level achievements," he said, adding that the low level of business growth in the state is a "chicken and egg situation. The two almost have to happen simultaneously. The availability of skilled manpower spawns entrepeneurship."

Despite efforts to educate Kentucky residents, Dr. Michael Price, director of population statistics at the Urban Studies Center at the University of Louisville, said the state is watching its educated population leave for better opportunities.

"There has been a net out-migration from Kentucky of between 10,000 to 30,000 people since 1979. Overall, the more educated are leaving the state," he noted. "Exceptions include Louisville which is losing blue collar workers and gaining white collar workers due to the growth in health-related industries."

Dr. Price said that while Toyota recently opened a plant in the state, testing for job applicants, "is like nothing we have ever seen before," due to automation. "Line jobs now involve using a computer, not just tightening a nut."

Service-Related Industries

At the opposite end of the spectrum, Tennessee is leading the region's growth with the development of health- and service-related industries in and around the cities of Memphis and Nashville.

While Tennessee's median household effective buying income in 1986 was below the U.S. median of $24,632, according to *Sales & Marketing Management*, it was the highest in the region, at $20,426—a $616 increase over the previous year's level.

The standard of living for most state residents is improving, but there remains a stubborn poverty rate that is commonplace throughout the region; 24 percent of households earn under $10,000. Per person income levels among this predominantly black population are still lower.

While this 24 percent figure might sound large, it is actually the lowest in the region. Twenty-six percent of Kentucky and Alabama households earn under $10,000, and 30 percent of Mississippi households fall below this income level.

While these statistics paint the picture of a bleak economy, reports published by state economic and development departments show that when the region is compared against its own previous performance instead of the nation as a whole, a slow but positive economic direction can be discerned.

In Mississippi, growing interest from foreign investors, especially British and Canadian firms, are bringing much-needed capital and jobs into the state. The most recent data available from the Mississippi Research & Development Center states that roughly 16,000 jobs were brought to the state from companies such as McMillian Bloedel Ltd., a Canadian forest products company, and Chloride Group Ltd., a British company that manufactures automobile batteries.

The state's long-term outlook for the Mississippi economy between 1989 and 1993 is for a 6 percent growth rate, with a real gross state product expansion of 2.3 percent annually, according to R&D Center reports. Employment in service industries is expected to rise; personal income is projected to rise at the national rate.

Alabama is showing promise of becoming a major technological center with the city of Huntsville at its heart. The county of Birmingham, especially the cities of Shelby and Jackson that have health service economies, is also setting the growth pace.

Huntsville, which first appeared on the map as a result of major investments in the U.S. space program during the 1960s, is enjoying accelerated growth due to the present administration's Strategic Defense Initiative, or "Star Wars" program. Due to the development of high-paid technical jobs, the city has the highest median household income in the state, exceeding $27,000.

Vying for Consumer Dollars

Discounters in the East South Central region are vying feverishly for consumer dollars despite the region's history of impoverishment. Most of the population does not have an income level that would permit investments on houses and other major purchases. As a result, larger percentages of per capita disposable income are spent at discount stores and other outlets that sell general merchandise.

For example, 14 percent of total retail sales in Mississippi and Tennessee, are spent on general merchandise compared with 10 percent in California and Connecticut, and 11 percent in both Colorado and Indiana, based on computations of *Sales & Marketing Management* data.

The dominant retailers trying to squeeze into these often tiny markets are K mart, Wal-Mart and hoards of dollar stores.

Rodney Barstein, president of Birmingham, Ala.-based dollar discount chain, Bargain Town USA, said future growth of his 48-unit chain will focus on the state of Mississippi which he believes is understored.

(Continued on page 136)

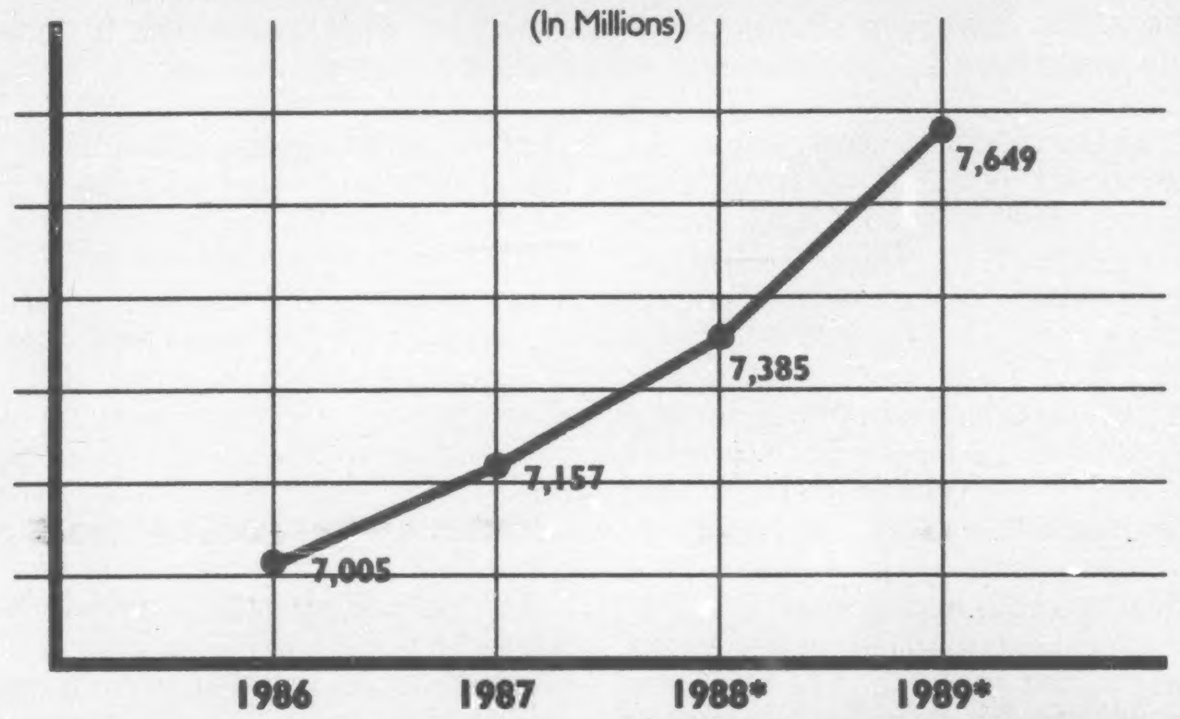
East South Central Snapshot

The East South Central states present a broad mixture of agriculture, manufacturing and mining. The region is among the fastest growing in both total and manufacturing employment, but pockets of weakness persist in energy sectors. Mining in Kentucky is off 2.4 percent from a year ago.

Growth through 1989 should continue to outpace the nation because of the manufacturing base.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Alabama	2.9%	7.7%
Kentucky	4.3	9.7
Mississippi	3.9	9.7
Tennessee	4.3	6.6
Total:	3.9	8.4

East South Central Discount Store Sales



*projected

Source: DSN, Mount Economic Consulting

East South Central Region: Discount Store Count

Chain	Stores
Dollar General	337
Family Dollar	287
Wal-Mart	230
K mart	168
Bargain Town USA	48
Service Merchandise	39
Rose's	32
Zayre	28
Maloney's	20
Hills	15
Target	14
Gibson's	13
Heck's	13
Sam's Wholesale Club	13
ALCO	7
Goldboro Distributors	6
Gold Circle	4
Fred P. Gattas	4
Standard Showcase	2
Wilbro	2
Brendle's	2
PACE	2
Total:	**1,286**

Source: DSN research

Huntsville, Ala.:

Technology and Conventions Boost Retailers' Sales

HUNTSVILLE, Ala. — A place that was sacred to the American Indians in years past has evolved into a city that boosts mankind to the stars.

This high-tech city now boasts one of the highest income levels in the East South Central region, and what some discounters have found to be a lucrative marketplace.

Prior to the "space boom" of the 1960s, Huntsville was a town of about 16,000. In one decade, the city's population blasted 340 percent to over 72,000 triggered by the U.S. government's decision to base one of its primary missile complexes, NASA's George C. Marshall Space Flight Center, in Huntsville.

While the local chamber of commerce notes that agriculture still contributes over $60 million to the yearly gross income of Madison County, where Huntsville is located, there is no denying the impact that the space program, and, most recently, the Strategic Defense Initiative program, has had on the city and county.

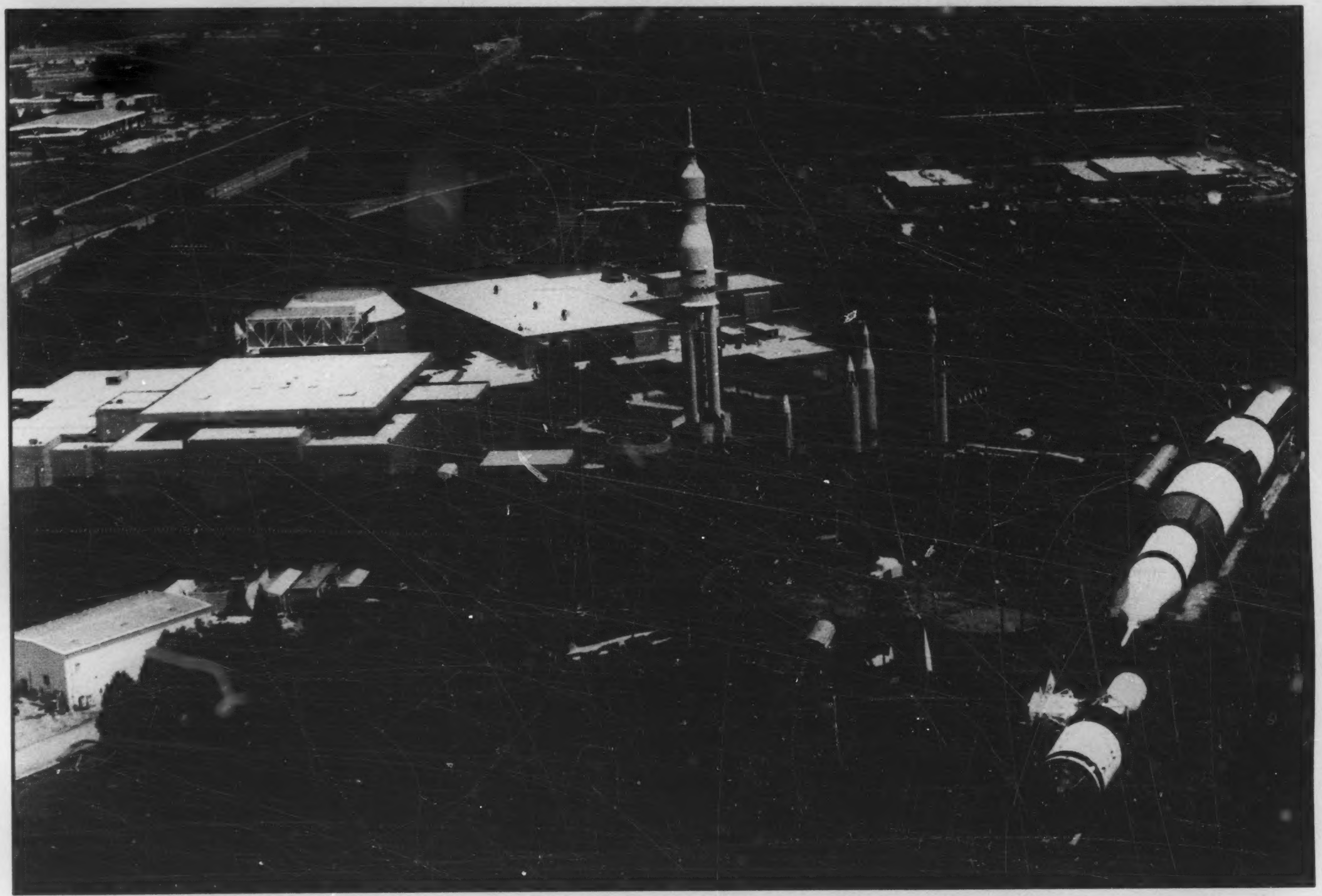
Strong Convention Business

Not only have major high-tech companies like Boeing, SCI Systems, Teledyne Brown Engineering and ONA brought jobs and capital to the city, secondary industries like a healthy convention business have evolved around the space industry. During the eight-year period of 1979 to 1987, the revenues generated from conventions within Madison County rose from $15 million to nearly $40 million.

All this aerospace, convention and agricultural activity has generated enough revenue to fill every retailer's cash register. Wal-Mart apparently believes the city will give stores a prosperous future; the chain opened four discount stores and a Sam's Warehouse Club within the city's 135-square-mile area.

Hills Department Stores, which has only two stores within the entire state of Alabama, selected the city of Huntsville as one of its locations, and Decatur—which is right across the Tennessee River from Huntsville—as the other.

At the other end of the spectrum, Bargain Town USA, a chain that is based in Birmingham, Ala., and operates nearly all of its 50 stores in the state, does not operate a single store in Huntsville.



The U.S. Space Center has provided the impetus for skyrocketing growth in Huntsville's population and economy.

"Anyone who isn't based in Alabama wants to open their Alabama store in Huntsville," said Rodney Barstein, Bargain Town president, who added that his chain "has no interest in Huntsville." He believes the town is already overstored with outsiders.

Huntsville: Discount Store Count

Chain	Stores
Wal-Mart	4
Dollar General	2
Family Dollar	2
K mart	2
Service Merchandise	2
Hills	1
Goldboro Distributors	1
Sam's Wholesale Club	1
United Jewelers & Distributors	1
Total:	16

Source: DSN research

While discounters other than Bargain Town did not say they had immediate plans for additional store openings within Huntsville's city limits, no one interviewed ruled out the possibility that expansion within Alabama could entail more Huntsville stores.

Huntsville is home to over 225,000 people, living in 84,000 households, according to the 1987 *Sales Marketing & Management* report. Like much of the East South Central region, over 20 percent of the households have an effective buying income (EBI) of less than $10,000.

Unlike most of the region, however, Huntsville also has within its borders more than 16,000 households with an EBI of $50,000 or above.

Taking all income levels into consideration, the city as a whole has an EBI which exceeds the EBI of well-established cities such as Cincinnati; Providence, R.I.; Phoenix, Ariz.; and Nashville, Tenn., based on *S&MM* figures.

Hills Department Stores, which has only two stores within the entire state of Alabama, selected the city of Huntsville for one of its locations. (DSN photo)

Slow Recovery in East South Central Region

(Continued from page 134)

In regard to the health of the region's economy he said, "There is no single industry that these two states really rely on that would really hurt the economy if they were to fail. We always lag behind, but when everyone else falls we are not hit as hard."

The chain was recently purchased by Montgomery, Ala.,-based Kindercare, the service-oriented conglomerate that had its roots in a chain of child care centers.

With the backing of its new parent, Barstein estimates that the company will be in a high growth mode in the region for the next five years, launching a chain of 40 to 50 one-price apparel stores averaging 3,000 square feet next year. Bargain Town stores are more apparel-oriented than competitors Family Dollar and Dollar General, said Barstein.

In a region with a heavy Wal-Mart and K mart presence, Barstein sees dollar stores filling an essential niche.

"Dollar stores are an easier place to shop than K mart or Wal-Mart. We're smaller stores, have fewer lines and storefront parking. We're easier to shop, especially for the elderly."

Barstein also estimated that his store attracts more blacks than whites chainwide. "About 60 percent to 65 percent of our customers are lower- to middle-income blacks. A lot of our customers are Zayre customers, but not vice versa because they have a broader mix."

George Mahoney, senior vice president at Family Dollar, agreed that ease of shopping is the dollar store's primary advantage over the sprawling discount department store giants.

"Convenience—the size of our stores, flexibility, ease of finding the product, ease of getting in and out of the stores—these things distinguish us from others. We also fit into both small towns and urban centers," Mahoney stated.

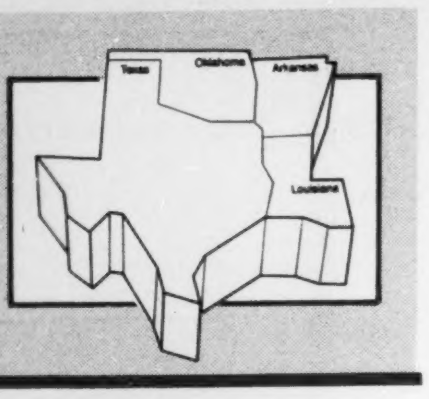
He acknowledged that competition in the East South Central region is keen, but also noted that "comparable store sales for those four states are at least as good if not better than the chainwide average."

Same store sales were up 1.5 percent for the chain during the first quarter, and up 6.5 percent for the second quarter ended February 29. Of the chain's 1,355 stores, 287 are located in the East South Central area.

Regional Analysis:

West South Central

Arkansas • Louisiana • Oklahoma • Texas



Oil Belt Regroups After Recession

Arkansas, Louisiana, Oklahoma and Texas, the West South Central states, comprise an oil- and gas-dominated region that suffered enormously as oil plunged to $10 a barrel in 1986. All four appear to have hit bottom economically, and are recovering to some extent or another.

Nonetheless, the four states show a wide diversity in economies.

Louisiana and Oklahoma are virtual basket cases. The Arkansas agricultural economy—largely based on chicken—has done surprisingly well. The giant of the region, Texas, has a strong manufacturing base, permitting it to recover from its energy woes with a surge of exports.

"The West South Central Region is going to come out of a recession in a little better shape than when it went in," predicted Robert Hayes, corporate economist for K mart.

Hayes said the region still offers the potential for market share development. Contrary to popular belief, "Discounting isn't a recession-resistant industry," Hayes said. "When income goes down, discount store sales go down." In Texas, "you could bury a lot of people" in the excess retail space that has been built, he said.

The region holds promise for the long term, Hayes said, but it may take three to five years for retailers to absorb that excess square footage.

Thanks to diversification and the lack of heavy dependence on oil and gas, Arkansas has done better than the rest of the region, Hayes said. Poultry and tourism spurred its economy while the rest of the region encountered an eight-year down cycle, he said.

Louisiana suffers not only from a heavy reliance on oil but also a "horrendous education system and a bankrupt state government," Hayes said. He is equally as negative about Oklahoma. "You've got oil wells and that's about it," Hayes said.

West South Central Region: Discount Store Count

Chain	Stores
Wal-Mart	419
K mart	219
Dollar General	218
Family Dollar	141
Service Merchandise	60
Target	58
Sam's Wholesale Club	40
United Jewelers	40
ALCO	28
Gibson's Discount Center	16
Zayre	9
Best Products	8
Stein Mart	8
Fred P. Gattas	3
American Wholesale Club	2
Hypermart USA	1
Total:	1,270

Source: DSN research

West South Central Snapshot

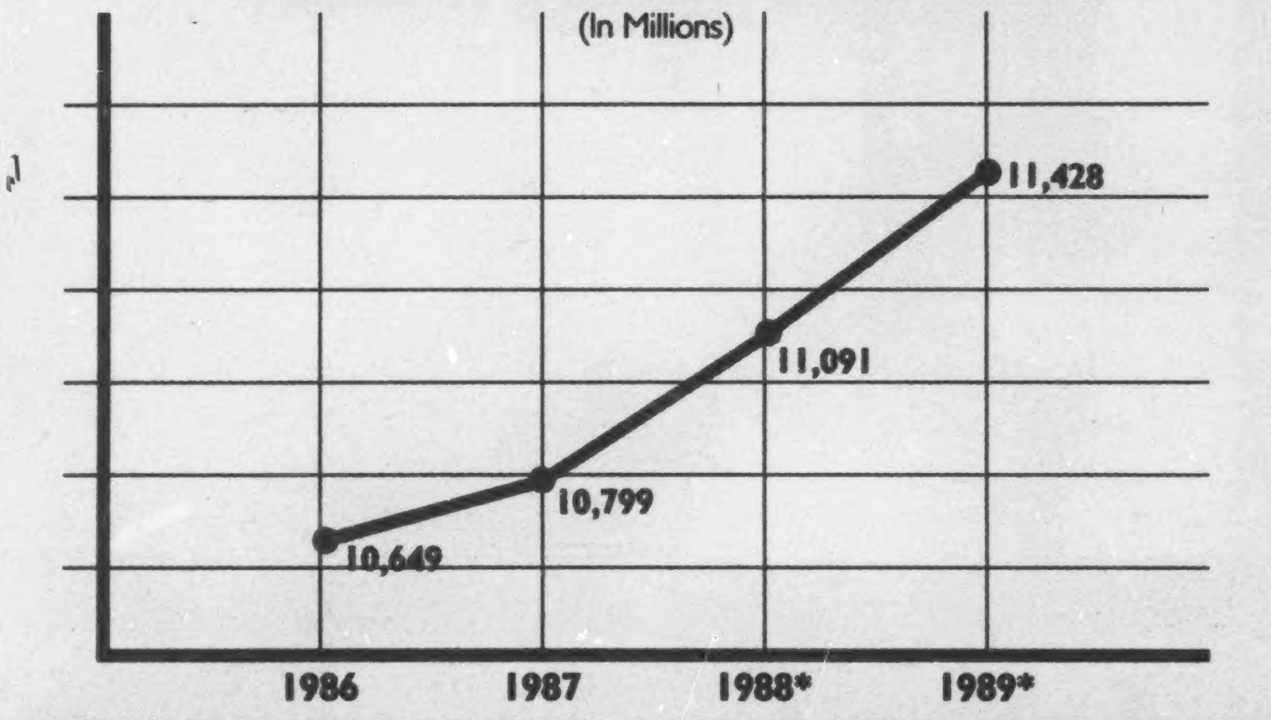
The outlook for the West South Central region depends largely on the energy situation. Following the drop in oil prices in the spring of 1986, this region began a sharp correction. Until energy prices turn up sharply, this area will be weak.

Among the states in the West South Central region, Arkansas is the strongest with employment gains of 4.3 percent from a year ago, well above the national average of 3.0 percent. Louisiana is the second strongest with employment up only 2.1 percent. Texas, suffering also from problems in its banking system, is third with a rise of 1.2 percent. Finance employment is down 0.9 percent from last year.

Oil prices are likely to increase only moderately by year-end 1989 as demand is growing slowly. For the West South Central states, growth below the national average can be expected through 1989.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate Feb. '88
Arkansas	4.3%	8.8%
Louisiana	2.1	12.1
Oklahoma	(0.9)	6.7
Texas	1.2	8.7
Total:	1.4	9.1

West South Central Discount Store Sales



*projected

Source: DSN, Mount Economic Consulting

Texas is enjoying a rebound in the oil and gas industry, a resurgence in electronics and aerospace industries, a strengthening of beef prices and increased demand for cotton, thanks to renewed interest in natural fiber apparel, Hayes said.

Despite their diversity, the four share one characteristic: the Wal-Mart stamp.

From its Bentonville, Ark., headquarters, Wal-Mart operates 419 discount stores and 40 Sam's Wholesale Clubs in the region. Its closest rival in full-line discount stores is K mart, with 219 stores in the region.

Following its acquisition of the 20 SuperSaver warehouse clubs last year, Sam's has the warehouse field virtually to itself. The only other operator in the region is American Wholesale Club, operating two Texas units.

Wal-Mart opened its first 200,000-square-foot hypermarket—and the first American hypermarket—in Garland, Texas, outside Dallas, last December. It plans to open two more of the same size elsewhere in Texas, and a smaller version in Wagoner, Okla., about 30 miles outside Oklahoma City, later this year.

The French hypermarket, Auchan, plans to open a unit this fall in Houston.

These are a few of the straws in the wind indicating that the worst appears to be over for the region, although most agree that rough times still lie ahead for Louisiana and Oklahoma.

Louisiana, suffering from a poorly diversified economy, lost 148,000 jobs between 1981 and the end of 1987, reported Dr. Loren C. Scott, chairman of the Louisiana State Department of Economics. In the spring issue of *Economic Newsletter*, Scott wrote: "Employment figures show emphatically that the state has bottomed out and begun economic recovery."

But the rub remains the uncertainty of oil markets, Scott added.

The various services that rank state business climates often fluctuate wildly in their ratings. However, three major ones—the Corporation for Enterprise Development, *Inc.* magazine, and the Chicago accounting and consulting firm of Grant Thornton—are uniformly down on Louisiana. Lack of new jobs, businesss vitality, earnings and job quality as well as a poor education system and high unemployment costs were among the factors cited in various reports.

Oklahoma is coming off a four-year recession and remains vulnerable to a national downturn, said Neil Dikeman, associate director of the Center for Economic and Resource Management at the University of Oklahoma. The economy still hasn't recovered from the recession, he said. "The slightest bump could cause a crack."

Per capita income has fallen to 82 percent of the national level, Dikeman said, from 99 percent. Because of heavy reliance on oil industry tax receipts, the Oklahoma state government also is facing a shortfall.

Retail sales slipped 10 percent in 1987 to $15.6 billion from $17.4 billion in 1986, Dikeman said. For 1988, retail sales are predicted to gain about 6 percent to $16.5 billion.

Discounters have captured market share in the state at the expense of small town, independent retailers, Dikeman said. In smaller towns, sales of independent stores have plunged as much as 30 percent, he said.

Among discounters, Wal-Mart, K mart and Sam's Wholesale Club have shown the most vigor, he said. In contrast, Target and Venture have shown little growth, he said.

Western Auto (which Sears acquired last month) has "pulled in its horns," Dikeman said, and Tulsa-based OTASCO, once a sound automotive specialty chain, is now troubled.

Arkansas is an agricultural-based economy, with 18 percent of its manufacturing jobs tied to food processing, said Dr. Phillip Taylor, director of the Bureau of Business and Economics, University of Arkansas.

Although the growth of jobs coincides with the national level, the influx of jobless workers from Louisiana, Oklahoma and Texas has kept the Arkansas unemployment rate above 7 percent, Taylor said.

Major chains are going well

The state's major discounters, Wal-Mart, K mart and Dollar General, are "doing fairly well," Taylor said. Wal-Mart is adding stores "here and there" in the state and opened three Sam's Wholesale Clubs, he said.

Wal-Mart appears to feel no danger of recession, Taylor said. The Bentonville-based chain is "super at inventory management," Taylor said, and can respond quickly to a downturn. Dillard's, the fast-growing department store chain based in Little Rock, also is strong on inventory mangement.

Many outsiders suffer from a general misconception about Arkansas, according to Taylor. "They would be surprised to see there's a lot of wealth in the state," from retirees and commercial successes, such as Wal-Mart, Whirlpool and Tyson, based in the northwest part of the state, he said.

Texas is the healthiest state in the region by far, said James Smith, former director of the Bureau of Business Research, University of Texas, and now senior lecturer in finance. Personal income is growing 6.9 percent in Texas, against 2.5 percent to 3 percent in the other three states, Smith said. He added that Texas is the No. 2 exporter of goods and services in the country.

"Discounters as a group have been doing well for the past two years," Smith said. In hard times, "it helps to have an reputation for lower prices."

He explained that Target is doing well in Texas; it and Wal-Mart are squeezing K mart from one side, he said, while Sears, Roebuck & Co. is squeezing from the other. "K mart is holding its own" in Texas, Smith said, but isn't in an expansion mode.

Sam's Wholesale Clubs have become "phenomenally successful," Smith said. (Texas is the largest state for Sam's, with 24 units.)

Wal-Mart's new Hypermart USA, Garland, is doing 60 percent better than expected, Smith said.

New Orleans:

Despite a Declining Economy, Discounting Thrives

Gains in tourism and shipping are improving the fortunes of New Orleans.

Louisiana Office of Tourism

NEW ORLEANS — The Crescent City is girding for the Republican National Convention in August, which may pump as much as $140 million into the economy.

Wal-Mart Corp. is getting ready to open its third Sam's Wholesale Club in metro New Orleans and opened in March its fourth New Orleans market Wal-Mart discount store in its drive to wrest dominance of the discount market from K mart.

Pic 'N' Save is tidying up details on an agreement to build a $50 million, 1 million-square-foot distribution center on a chunk of city-owned land and is planning to open three or four stores here in a new market for the California-based closeout chain.

Macy's this year opened its second store, and Lord & Taylor is preparing to enter the New Orleans market.

All of which should indicate that the pall of gloom cast over the land of Mardi Gras by the oil-fueled recession is at least beginning to lift.

New Orleans' economy hit bottom by the second quarter of 1987 and is struggling to recover the salad days when oil hit $40 a barrel—and then skidded to $10.

The unemployment rate hit a high of 11.8 percent by January 1987, and the number of residents who held jobs slipped to a low of 505,600 in February from a peak of 527,300 a year earlier.

In retailing, the number of workers hit a low of 102,400, compared to 107,200 in January 1986.

Leading economic indicators show the metro area economy probably will remain flat through August, predicted the Division of Business and Economic Research of the University of New Orleans.

Although the unemployment rate fell from a seasonally adjusted high of 11.3 percent in February 1987 to 9.3 percent a year later, wage and salary employment in the fourth quarter fell 0.4 percent from the year-earlier period, the University of New Orleans reported. Accordingly, "the decline in the unemployment rate reflects other factors—such as people leaving the area—rather than an increase in employment opportunities."

As unemployed oil and gas workers left town, population dipped to an estimated 1.326 million by July 1987 from 1.334 million a year earlier, still leaving it the nation's 27th largest metropolitan area. Housing starts slumped 8 percent last year to 4,454 from 4,843 in 1986 and fell 15 percent more in the first two months of 1988.

Personal income plunged $220 million in the second quarter of 1987 to $4.23 billion.

A private economic forecasting service projects employment will increase to 517,000 in 1988 and to 523,000 in 1989, said Robert Folse, director of research for the New Orleans Chamber of Commerce. Those gains still would leave the number of residents drawing payrolls below the 1986 level.

"Retailers are eating each other up" as they fight for the same customers, Folse said.

New Orleans was a strong Woolco town, Folse said, and when F.W. Woolworth closed its discount chain, K mart had the discount market pretty much to itself for a brief period.

But since Wal-Mart came to town three years ago, splitting former Woolco stores with K mart, it has wrested dominance from K mart, Folse said. It operates four units in the market and two Sam's Wholesale Clubs, with a third on the way.

New Orleans SMSA: Discount Store Count

Chain	Stores
Zayre	9
K mart	7
Family Dollar	5
Wal-Mart	4
Dollar General	3
Service Merchandise	3
Sam's Wholesale Club	2
Stein Mart	2
The Real Superstore	2
Total:	37

Source: DSN research

The turnaround is definite but the recovery won't "rip and roar," said Stella Schramm, director of commercial development for the Chamber.

Because the New Orleans economy is tied to oil, it won't boom again until oil does, Schramm said. At the same time, New Orleans is less dependent on oil than is Houston: 25 percent, against 50 percent, she said.

Tourism, another leg of the economy is gaining at least 3 percent, she said, and port tonnage, thanks to a cheaper dollar that is driving exports, has gained 18 percent so far this year.

The economy of New Orleans remains "rotten," said Charley Blaine, business editor of *The Times-Picayune*. Louisiana has the second worst unemployment rate in the country, he said, and New Orleans isn't much better. The economy is based on three legs, tourism, oil and the port, Blaine said, and one and a half legs, oil and the port remain sick.

The port has suffered for the past five years, he said. "New Orleans was is the wrong place after transportation deregulation." But at least the business the port brings has staunched the job-loss flow, Blaine said.

"New Orleans would be vulnerable to a national recession because it would bite into the city's tourism and convention industry," *The Times* reported.

The economic woes of Louisiana however, have allowed discounting to penetrate deeper, especially in New Orleans, said Dr. Joe Hair, marketing department chairman at Louisiana State University, Baton Rouge.

Wal-Mart, Sam's and K mart have expanded in the state, and are gaining market share at the expense of department stores and smaller, independent stores, Hair said.

New Orleans is doing at least 50 percent better than Louisiana as a whole, where retail sales, statewide, are gaining 2 percent to 3 percent. That's less than the rate of inflation, Hair said. (That follows a 3.9 percent decline in wholesale and retail trade during 1987, as reported by the University of New Orleans.)

In its economic outlook for 1988 and 1989, The College of Business Administration, Louisiana State University predicts that wage and salary employment in New Orleans will increase 0.6 percent in 1988 and 0.7 percent more in 1989. New Orleans would trail the national growth rates projected at 2.3 percent in 1988 and 1.4 percent in 1989, the LSU analysis concluded.

Sam's Has Met Projections

Managers of discount units here, report a mixed experience during the downturn. The manager of a two-year-old Sam's said his wholesale club has met projections in each of its two years. "We busted new ground," the manager said, "so we have no history to compare to."

The business of a nearby Wal-Mart also has increased, he said, indicating that the wholesale club hasn't cannibalized its business. "We don't carry the same sizes as the usual discount store," he said. Competition in general merchandise and food packaged in larger sizes comes from the two Real Superstores, of supermarket chain National Tea, the Sam's manager said.

A 2% Sales Growth Expected

A K mart manager, on the other hand, said, "There's no growth here, that's for sure." For 1988, the manager said he expects a 2 percent growth in sales, about half the inflation rate.

In addition to Sam's and Wal-Mart other competition comes from Stein Mart, a factor in clothes, the manager said. And, Schwegmann's, basically a supermarket chain, also is a general merchandise discounter, the K mart manager said.

A Zayre manager said his store is down 3 percent to 4 percent from last year. Some of the nine Zayre's in the metro area have increased sales, he said. "Not all are down."

In certain categories, Schwegmann's also competes with Zayre, the manager said.

The manager of a Wal-Mart said The Real Superstore is his toughest competitor in terms of price on general merchandise. The Real Superstore is weak on clothing, he said. His Wal-Mart unit does 40 percent of its business in apparel, the manager said. "We're beating the socks off Zayre," the manager said, "and I think they would agree.

"We shine when the economy's bad. We're doing well and are happy with the area."

New Orleans SMSA Economic Indicators

Indicator	1988	1987	1986
Unemployment Rate*	9.8%	10.9%	10.1%
Total Number Employed**	509,900	505,600	527,300
Retail Trade Jobs**	102,900	102,400	107,200

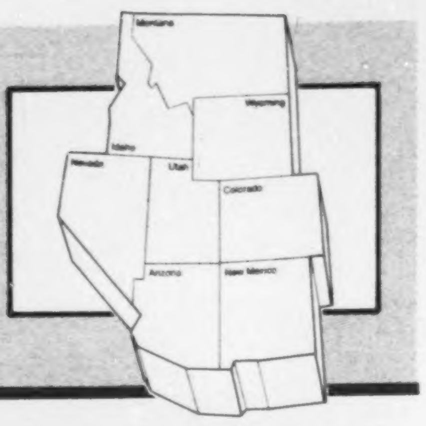
*March of each year **January of each year

Source: Greater New Orleans Chamber of Commerce, Bureau of Economic Analysis, Louisiana Department of Commerce

IMRA
ANNUAL CONVENTION
1988

Regional Analysis:
Mountain

Montana • Idaho • Wyoming • Colorado
New Mexico • Arizona • Utah • Nevada



Pacific Growth Rubs Off on Mountains

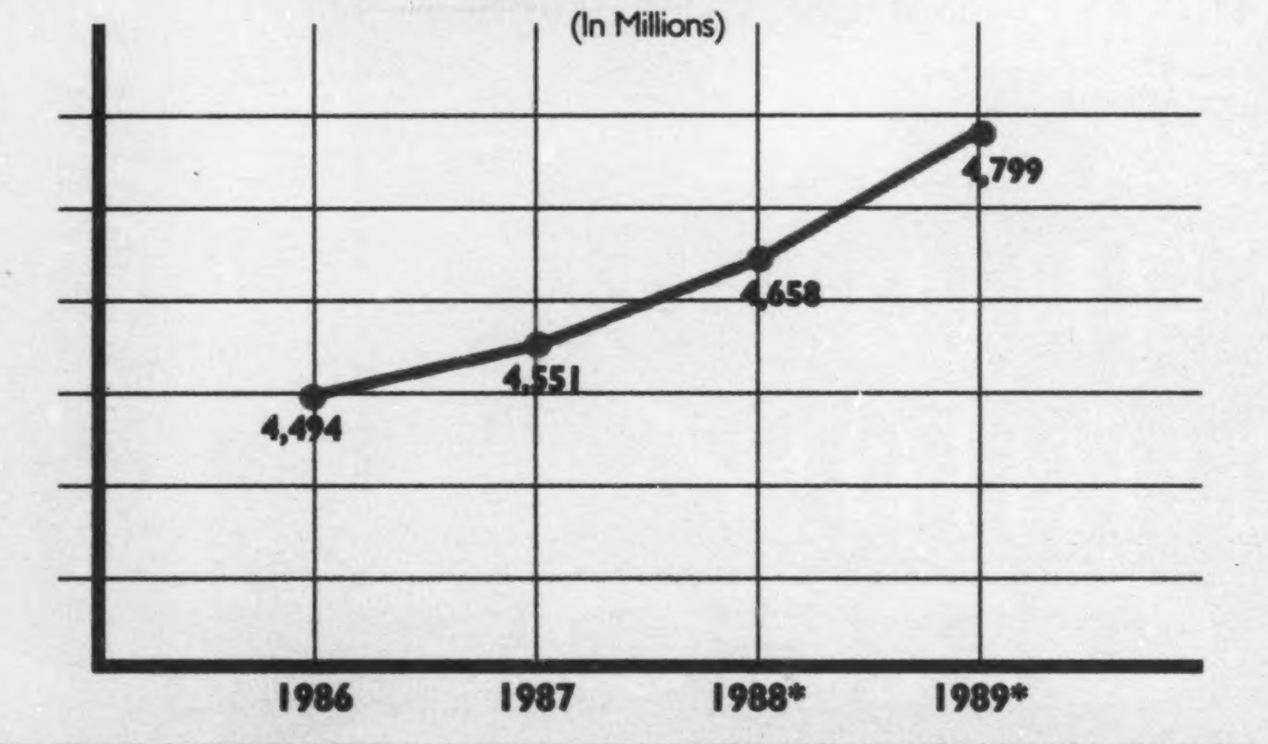
Mountain Snapshot

Employment gains in the Mountain states continue to lag the national average, pulled down by less energy mining activity in Colorado and Wyoming. On the positive side, Nevada has the strongest growth rate in the nation. The lower dollar will help mining activity outside the energy sector, but the Mountain states should remain weak relative to the nation through 1989.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Arizona	3.5%	5.7%
Colorado	(0.2)	8.1
Idaho	3.8	9.1
Montana	1.0	9.1
Nevada	6.9	6.6
New Mexico	1.8	8.6
Utah	1.5	6.3
Wyoming	(0.9)	8.6
Total:	2.1	7.8

Mountain Discount Store Sales

(In Millions)



*projected

Source: DSN, Mount Economic Consulting

Mountain Region: Discount Store Count

Chain	Stores
K mart	138
Yellow Front	126
Target	38
Wal-Mart	32
Best Products	27
Pic 'N' Save	27
Pay Less NW	26
ALCO	25
Fred Meyer	25
Pamida	15
Smitty's	15
Service Merchandise	12
ShopKo	11
Value House	6
Price Club	5
PACE	4
Tri-State Distributors	4
Buyer's Club	3
Costco	3
Fed-Mart	3
Price Savers	3
Pamida Discount Center	2
Sam's Wholesale Club	1
Furr's	1
Total:	**552**

Source: DSN research

Stretching through diverse territories of dry deserts, flat fields and giant mountains, the nation's Mountain region is characterized by an economic structure that is as diverse as its geographic terrain.

Consisting of New Mexico, Nevada, Arizona, Utah, Colorado, Wyoming, Montana and Idaho, the Mountain states reached a total population of 13.2 million in July 1987—a 15.8 percent increase since 1980, according to the U.S. Census Bureau.

Nevada and Arizona accounted for much of the growth, and the two represent the best economic areas of the region. Between 1980 and 1987, Nevada's population grew 25.9 percent and Arizona's grew by 24.6 percent. While growth over the past year has actually dropped in some of the Mountain states, these two have held to positive growth figures.

Extension of West Coast

Because of the close proximity to California, these two states are seen by many economists to almost be an extension of the West Coast. In fact, according to a recent story by the *Los Angeles Times*, some companies have either moved or are looking to move to Arizona and Nevada because of cheaper land and labor costs, knowing they will still be close to the West Coast activity.

Retail sales in the two states have been strong, and discounters have showed particular interest in the areas over the last few years. While Yellow Front and Smitty's are two home-grown discounters in Arizona, the state has seen entries by Price Club and Price Savers, and Wal-Mart will soon arrive.

Nevada has also provided interest for discounters like Target and ShopKo, Costco, Pay Less NW and several off-price apparel chains.

New Mexico Shows Promise

To the east of Arizona, New Mexico has shown some recent growth, too, but not of the same magnitude as Arizona and Nevada. The population has increased steadily over the last few years, growing by 15.1 percent between 1980 and 1987. However, unemployment in New Mexico was high last year at 8.9 percent, although it had dropped from 9.2 percent in the previous year.

Together, the eight Mountain states produced $4.55 billion in discount store sales in 1987. This figure is expected to reach $4.66 billion and $4.80 billion in 1988 and 1989, respectively, according to exclusive research by Mount Economic Consulting for *DSN*.

However, economists said that they expect there will be little growth in some of the Mountain states which are still suffering from the drop in energy prices.

In Wyoming, where the population actually dropped 3.4 percent from 1986 to 1987, the population and economic climate is expected to continue declining this year and possibly level off in 1989, according to Carol Bray, assistant vice president and regional economist for First Interstate Bank Corp.

The Wyoming unemployment rate in 1987 was 8.6 percent, falling slightly from the 9.0 percent in 1986.

Wyoming's retail base includes discounters such as K mart, Yellow Front, Target, Pamida and ALCO, but the area is noticeably devoid of off-price apparel chains like Marshalls, Ross or T.J. Maxx.

In nearby Montana, the retail presence is similar. However, Fred Meyer, the Pacific Northwest-based superstore operator, Pay Less Drugs, and ShopKo are significant factors there.

Montana has suffered from the decline in both oil and agriculture prices, said Bray, although the latter have been sustained by the government. Population grew some 2.9 percent form 1980 to 1987, but dropped 1.0 percent between 1986 and 1987, while the unemployment rate was estimated to be 7.4 percent last year.

Idaho's unemployment rate in 1987 was higher at 8.0 percent, but Bray said there has been some economic growth, spurred on by high-tech industries. "It's a state with some positive factors going for it," noted Bray.

A stronger discounter presence is felt in Idaho, where Pay Less NW has 15 stores; Yellow Front and K mart, 11 each; ShopKo, seven; Fred Meyer, six; and T.J. Maxx and Pic 'N' Save each have one unit.

Despite its somewhat sluggish economy, Utah is also a busy discount market, as evidenced by ShopKo opening four stores there this year. Although it's Price Savers' home territory, Costco has also entered with one site, while K mart and Fred Meyer each have 17 locations; Yellow Front and Pic 'N' Save each have six; and California-based off-pricer Ross operates two stores.

Bray said there has been some recent moderate growth in Utah because of increased prices for the state's copper and silver resources. The state has also benefited from modernization improvements made at the mines, which were closed for some time, explained John Lucking, economist with Valley National Bank.

Lucking said the only negative aspect of the mine modernization is that fewer people are now employed. Unemployment for Utah was 6.4 percent in 1987, up from the 6.0 during the previous year, even though the population decreased during the two years.

Colorado Still Suffering

Colorado's unemployment rate also rose in 1987, to 7.7 percent from 7.4 percent in the previous year. At the same time, the population also dropped. Economists reasoned that Colorado is still suffering from the drop in energy prices, while also now facing an unpleasant situation which makes the area less desirable—smog. The Denver/Boulder area was recently ranked even smoggier than the Los Angeles basin.

Discounters in Colorado include home-grown membership warehouse clubs PACE and Buyer's Club in addition to major national chains like K mart, Target and Wal-Mart. Wal-Mart intends to open one more site in the state this year, bringing its statewide count to 18 stores, while PACE has closed one of its locations this year and transformed the site into a distribution center.

Other discounters include T.J. Maxx, Pay Less, Pic 'N' Save, Ross, ALCO, Marshalls and Yellow Front. While the state has produced lackluster sales for some retailers, Sean Lee, Yellow Front president, said his chain has actually done quite well.

Former Bonanza stores purchased by Yellow Front last year and recently brought under the Yellow Front merchandise mix and banner have actually been able to increase sales, Lee said. "As disposable income comes down, we seem to do better," Lee explained, citing the attractiveness of Yellow Front/Bonanza's low-priced closeout merchandise for much of the positive results.

The overall outlook for the Mountain region is mixed because of the varied economies of the eight states, but economists agree the strong areas will remain relatively good while the weaker markets gradually repair themselves and stem their declines.

Explained an Economic Perspectives report: "With most of the downward pressures on the oil industry now behind them, the West South Central and Mountain census divisions are projected to see far better comparative economic/retail sales growth rates over the period 1988 to 1992 than what has been experienced since 1985."

Phoenix:

The Competition Is as Hot as the City's Summers

Though its frantic growth rate of 1984 to 1986 has slowed somewhat, Phoenix still remains relatively strong.

PHOENIX, Ariz. — Metropolitan Phoenix is experiencing a slowdown in the double-digit growth rate that marked this Southwest boom town in the early- to mid-80s. While its rate of growth may be slowed, Phoenix is still considered a relatively strong market, featuring such dynamic retailers as Target, Smitty's, Home Express and the soon-to-arrive Wal-Mart.

From 1980 to 1986, Phoenix was the fastest-growing major (one million or more) metropolitan area in the country. Its population rose 26 percent to 1.9 million, making the metropolitan area the 21st largest in the country, according to the U.S. Census Bureau.

Much of this growth was spurred on by the poor economies in other parts of the country, with many people migrating to Phoenix from the Central states. Double digit growth took place during the 1984 to 1986 period. Though area economists say that frantic pace has slowed somewhat, Phoenix still remains relatively strong compared to other areas of the country.

In 1985 and 1986, between 15,000 to 18,000 people entered metropolitan Phoenix's population base each quarter. However, the first quarter figures for 1988 showed only 7,000 new people migrated to the area, said Lee McPheters, director of the Economic Outlook Center at Arizona State University.

Metropolitan Phoenix is encompassed within the 9,127 square miles of Maricopa County; over half of the state's population resides here.

This slowing in population has created some problems for the area's economy, particularly in construction, as overbuilding has resulted in excess capacity in categories like multi-unit housing, according to Terry Trost, vice president and chief economist of the Phoenix Chamber of Commerce.

Other sectors have also slowed in growth, such as manufacturing and services—because much of their business relies on manufacturing, said Paul Perry, economist with First Interstate Bank in Phoenix.

Local economists expect employment in Phoenix to expand some three to four percent during the next two years, about half the growth rate of 1984 through 1986. "There is a slowdown in the rate of growth, not a negative growth," noted Trost.

Retail sales for metropolitan Phoenix are expected to grow by some five to six percent in the coming months, which while better than many areas, will still only translate into relatively flat growth after adjustments for inflation, area economists said.

Total retail sales reached $12.3 billion in 1986 for greater Phoenix, where the median age is 31 years and the median household income is $31,000, according to the 1987 Inside Phoenix report by the *Arizona Republic/Phoenix Gazette.*

Phoenix: Discount Store Count

Chain	Stores
Yellow Front	26
K mart	12
Smitty's	12
Target	10
Pic 'N' Save	3
Price Club	3
Total:	**66**

Source: DSN research

Vying for these retail dollars are all classes of retailers, including discounters like K mart, Target, Smitty's and Yellow Front, promotional retailer Mervyn's, and warehouse clubs Price Club and Price Savers.

While some of these retailers are still looking to expand in the area, other retailers are looking or planning to enter the greater Phoenix market for the first time—including electronics/appliances retailer Circuit City and home furnishings chain Home Express.

Wal-Mart to Enter Arizona

Wal-Mart is set to enter Arizona this year. In keeping with its marketing philosophy, the chain will initially stay out of metropolitan Phoenix and instead enter surrounding towns.

For existing and incoming Phoenix retailers, several key operating factors have to be taken into consideration. Temperatures do indeed go very high during the summer months, often eclipsing the 100 degree mark. While most people go from their air conditioned houses to their air conditioned cars and then into air conditioned stores, certain traffic patterns are changed during the hot months.

Large regional malls become key draws, as do major anchors in strip centers. However, smaller, non-destination stores along an outdoor center can see sales decline because of less walk-by traffic, explained Paul Smith, owner of the Arizona Retail Group, a tenant real estate representative.

The summer heat also affects new site construction requirements and expenses. Smith said Price Savers recently had to spend half a million dollars more than the chain normally spends on an air conditioning system at a new Phoenix location.

Retailers must also keep the year-long warm temperatures in mind for their merchandising strategies. However, the "major difference is the timing, not the product mix," said Sean Lee, Yellow Front president, who noted that winter nights do get cool, so retailers have to stock fall merchandise during a portion of the year.

The Phoenix retail environment is also affected by the yearly migration to the area by "snowbirds." Mostly retired people, and thought to number over 100,000, these people flock to the area starting in the early fall months and can stay as long as early summer.

Despite this transitory group that leaves in the summer and the summer heat that could make residents reluctant to leave their cool homes, area discounters said there is very little fluctuation in monthly sales volume. However, there is an increase in advertising during this time, said Dennis Christensen, retail advertising sales manager with the *Arizona Republic/Phoenix Gazette.*

The Phoenix market also poses a strong competitive environment among retailers, "where you are constantly looking out for sites and where people are going to be next," explained Marc Weidinger, director of corporate planning for Smitty's.

In a recent study by the *Republic/Gazette*, which reviewed shopper traffic over a 30-day period, Smitty's drew 44 percent of the adults surveyed. The study also showed that 47 percent of the adults had shopped K mart, while 26 percent had been to Mervyn's and 43 percent had gone to Target.

Cross-shopping during the 30 days showed that over 60 percent of K mart's shoppers went to both Mervyn's and Target, and Target shoppers also flocked to K mart and Mervyn's to the same degree. However, only about 35 percent of Mervyn's customers cross-shopped at K mart and Target.

Among Phoenix consumers who shop exclusively at only one of the major discount retailers, K mart scored the highest, with 28 percent of its customers shopping only at K mart and not at Mervyn's or Target.

Area observers expect the Phoenix market's competition will continue to heat up as more retailers enter the market and prime real estate begins to diminish. However, the market is still seen as viable and should continue to expand in retail sales, population and economic growth over the coming months.

Wal-Mart is set to enter Arizona this year. In keeping with its marketing philosophy, the chain will initially stay out of metropolitan Phoenix and instead enter surrounding towns.

(DSN photo)

5/31/88

C5150-3

Discount Store News.
THE NEWSPAPER OF DISCOUNT RETAILING

Out of the Fire, But Into...?

Recession. Not likely. But discounters can't discount the possibility. Seven months after the 'Crash,' DSN explores how economic uncertainty is affecting all aspects of operations, from marketing to store design to technology. The exclusive report presents an outlook on national and regional economies and examines how discounter sales will fare in the coming months.

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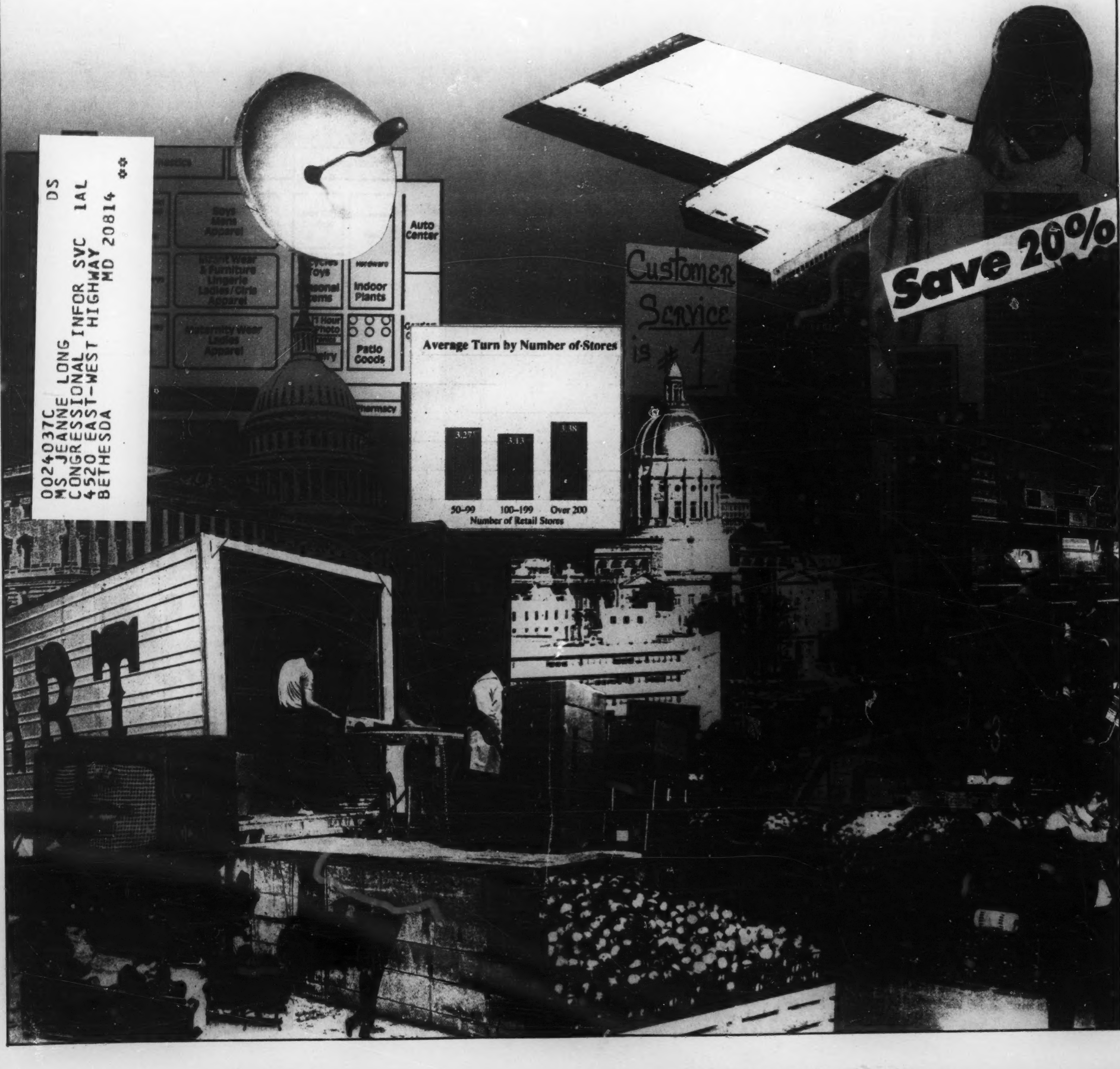
Boys Mens Apparel
Infant Wear & Furniture Lingerie Ladies/Girls Apparel
Maternity Wear Ladies Apparel
Indoor Plants
Patio Goods
Auto Center
Pharmacy
Average Turn by Number of Stores
3.27
3.13
3.38
50–99
100–199
Over 200
Number of Retail Stores
Customer Service is #1
Save 20%

5/31/88

C5150-3

Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

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Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc.
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May 23, 1988

Price Verdict Threatens Future of Discounting

WASHINGTON — In a major legal setback for consumers and the discount store industry, the U.S. Supreme Court opened the door for full-margin retailers to conspire with manufacturers to prevent price cutting by competing retailers.

The ruling, which will leave discounters vulnerable to termination by key suppliers, held that as long as there is no agreement to set specific prices or price levels, it is no longer automatically illegal for a supplier and a higher-priced dealer to conspire to cut off sales to a competitor.

The decision in the case of *Business Electronics Corp. vs. Sharp* undermines 77 years of legal precedent whereby such agreements have been treated as automatic violations of federal antitrust law.

The 6-2 verdict has already come under heavy fire from the International Mass Retail Association as "harmful to consumers and price competition."

According to IMRA government relations vice president Robert Verdisco, "The court's unfortunate decision means that higher-priced retailers will not only be able to complain to their suppliers about more-efficient, lower-priced competitors, but can also try to coerce an agreement to eliminate their competition."

The net result "is likely to be lessened competition and higher prices for the nation's consumers," he predicted.

In contrast, Reagan administration antitrusters called the ruling a "step in the right direction" and an indication that the Supreme Court recognizes the importance of regulating trade to promote maximum economic efficiency.

Significantly, however, the high court stopped short of declaring that all forms of retail

(Continued on page 215)

Discounters Divided on 'Son of Fair Trade'

Nationwide DSN Report

Discounter reaction varied widely to the Supreme Court ruling allowing a vendor to cut off a discounter when a full-price competitor complains.

Some called it "Son of Fair Trade," while another said the discounting industry has become too entrenched to be hurt by the ruling.

Others said it's impossible to tell what the effect will be. K mart disclosed intentions to fight the decision by lobbying for a bill now before Congress that would make it easier to get a jury to look at suspected price fixing conspiracies.

"We have no idea as to whether it will have any impact," a Wal-Mart spokeswoman said. Wal-Mart has assigned a staff attorney to study possible ramifications.

K mart is taking a more ac-

(Continued on page 215)

K mart Kids Club Targets K marters of the Future

TROY, Mich. — K mart has created a new marketing program aimed at developing the next generation of K mart shoppers.

Called the K mart Gym Kids Club, the program promotes youth fitness for children ages 7 to 14. It also offers unique marketing, merchandising and licensing opportunities for K mart via the club's newsletter, specially-created logo and mascot caricature, Gymnast-A-Cat.

K M A R T
GYM KIDS
C L U B

The idea for the K mart Gym Kids Club grew from the discounter's new sponsorship of the U.S. Olympic Gymnastics team and the U.S. Gymnastics Federation, said Mike Wellman, vice president, marketing. The gymnas-

(Continued on page 215)

Zayre Taps Zarkin of HomeClub To Head Troubled Discount Division

FRAMINGHAM, Mass. — Herbert J. Zarkin has been named chairman of Zayre Stores, filling the vacancy created when Malcolm Sherman stepped down from that post last July.

Zarkin assumes responsibility for the fourth largest discount store chain in the country whose sales and earnings levels have been slipping since early 1987. Reports for the fourth quarter ended Jan. 30 state the division suffered a gross income loss of nearly $17 million for the quarter, and about $14 million in losses for the year.

Herbert J. Zarkin, formerly president of Zayre Corp.'s HomeClub home improvement subsidiary, was named chairman of Zayre Stores.

Reporting to Zarkin are: Stanley M. Adler, Zayre Stores president; Robert Alger, senior executive vice president, operations and distribution services; Donald G. Campbell, senior vp, finance and administration; and Robert Brummer, senior vp, human resources.

Zarkin has been with the Zayre organization since 1961, when he started as a stockboy. His promotions include store manager; sales promotion manager; executive vp, marketing, advertising, sales promotion and real estate; and HomeClub president in 1986.

GRAND OPENING
MAY 4
WILLOWICK HILLS, O
GRAND OPENING

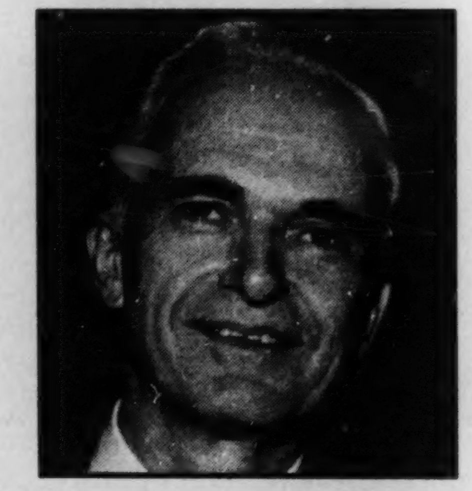
Shoppers Crowd Makro Opening in Cleveland

More than 1,000 people lined up for the grand opening of Makro in Cleveland on May 4. Cutting the ribbon (from left): Bob Stark, the developer; Joseph Antonini, chairman of Makro parent K mart Corp.; Lou Fick, store manager; and Joseph Nusim, president of Makro. (DSN photos)

A Farewell of Sorts

What Makes Winners In Discount Retailing?

By Richard Groberg



Joe Nusim could have talked about a lot of things earlier this month, the evening of the opening of Makro's first joint venture store with K mart. What he talked about mainly in his remarks to friends, suppliers and associates was their people. In fact, he spent more than three-quarters of his time at the microphone on that subject.

He identified his management team, one by one. He had them stand up and be seen. He gave their background and credentials and area of specialization. And he wound it all up by saying that he knows that the Makro/K mart venture will do well primarily for one reason. His people are as good or better than anyone in the business.

(Continued on page 11)

Largest IMRA Convention Issue Ever

MARKETWATCH

Wal-Mart Completes Helen's Divestiture

BENTONVILLE, Ark. — Wal-Mart has completed the previously announced divestiture of its three-unit Helen's Arts and Craft division. Michaels Stores, Irving, Texas, which already operates 97 craft stores, bought the units for $2.3 million. The retailer also appears poised to invade the Chicago market with three discount stores in outlying communities of the Windy City between late summer and next spring. According to a report in a local business newspaper, the new stores will be serviced out of the chain's Mount Pleasant, Iowa, regional distribution center.

Tuesday Morning Adds 5 Southern Units

DALLAS — Tuesday Morning, the deep discount general merchandise chain based here, has opened five new stores simultaneously on April 28 in Lexington, Ky.; Montgomery and Mobile, Ala.; Shreveport, La.; and St. Louis. The openings are in keeping with the company's primarily Southern and Southwestern real estate strategy, although recent openings concentrated on more Northern markets like Chicago and Baltimore. The company now operates over 90 stores in 18, mainly Southern, states and features name brand, first-quality merchandise—mainly overruns and remnants—at discounts of 50 percent to 80 percent.

Saveco Files Bankruptcy Petition in Calif.

RIVERSIDE, Calif. — Saveco has filed a bankruptcy petition in an effort to "reorganize the operations" of its single membership warehouse club here. Michael A. Arechigo, a former K mart district manager, is serving as acting president in place of company founder Gerald H. Bittner. Bittner has "re-contributed" his 500,000 shares of Saveco stock to the company, reducing the firm's market capitalization to 2 million shares. In a move to cut costs, Saveco shut its other store in Gardena, Calif., last fall.

Zayre Corp. Debt Rating Downgraded

NEW YORK — Moody's Investors Service has downgraded some $238 million of the long-term debt of Zayre Corp. The rating service cited expectations that operating returns from Zayre discount stores will rebound slowly from their depressed levels and the parent company's operating profits will continue to be lackluster. In 1987, Zayre discount stores suffered an operating loss because of poor sales and inventory write-offs, Moody's said, blaming them on poor merchandising, an unsuccessful promotional sales strategy and inefficient distribution. Zayre's specialty apparel division, TJX Cos., and its BJ's Wholesale club operations should continue to be strongly profitable, Moody's said.

N.E. Cataloger Opens Mass. Unit

WOONSOCKET, R.I. — Save-Rite, a four-unit catalog showroom operator, opened its fifth location last month, in Milford, Mass. The 25,000-square-foot showroom neighbors a K mart store at the intersection of state Route 109 and Interstate 495. The other four showrooms operated by the 24-year-old cataloger are in East Providence and Warwick, R.I.; Fall River, Mass.; and New London, Conn.

Gee Bee Adds 23rd Unit in Pa.

YORK, Pa. — Glosser Brothers, operators of Gee Bee discount department stores and Dollar Bargain Outlets, opened its 23rd Gee Bee store here on April 6, the second store in this city. The 63,000-square-foot unit is located off of exit 7 on Interstate 83. Gee Bee operates stores in Pennsylvania, Maryland, West Virginia and since September, in Virginia. Last fall, Gee Bee opened its first store in Manassas, Va. In March, it opened its second Virginia unit, in Harrisonburg. Further expansion is planned for this year.

Closeouter Pic 'N' Save Opens in South

CARSON, Calif. — Closeout specialist Pic 'N' Save opened its first Southern store, in Shreveport, La., last month. Prior to the opening, Pic 'N' Save operated units in eight Western states from California to Texas. The now 125-store chain will continue its entry into the South this year with the opening of stores in New Orleans and Bossier City, La. Pic 'N' Save is currently building a distribution center in New Orleans, which, when completed in 1990, is expected to serve new stores in the South and Southeast.

K mart Expands Brokerage Program

DETROIT — K mart has added leased discount brokerage centers in four stores here, with the financial facilities operated by the Olde Discount Corp. brokerage firm. Earlier this year, the Olde Discount Corp. leased space in four New Jersey K mart units, in the first deal between the two companies.

Exclusive Consumer Study:

Toy Depts. Rate High at Discounters

Nationwide DSN Report

Toys, housewares, stationery, and health and beauty aids have been identified by consumers as offering the best potential for growth for discount stores, according to the preliminary results of an exclusive national consumer buying survey conducted for *Discount Store News* by Leo J. Shapiro & Associates, a Chicago-based research firm.

The comprehensive report, which will be published in its entirety by *DSN* later this year, analyzes 15 departments in which discount department stores do business.

Highlights of the survey, which is based on interviews conducted with 900 households nationwide, will include:

- Number of consumers purchasing products within each of the 15 departments;
- Share of dollars spent at discount stores;
- Consumer evaluation of discount department stores compared to other retailers;
- Number of consumers planning to do more or less buying in discount stores;
- Demographic characteristics of discount store shoppers by department;
- Performance of major discount stores in each category.

The report also revealed that 70 percent of U.S. households said that discount stores have improved over the past five years.

In addition, the survey report will reveal how each of the 15 departments is performing. For example, the preliminary report reveals that of the 15 departments, toys is the highest rated.

Furthermore, the report will identify the reasons consumers increase their purchases in a particular department. For example, selection was mentioned as a key requirement needed to support growth in toys.

The in-depth analysis of this exclusive survey will be published in the Sept. 12, 1988, issue of *DSN*. For details of the preliminary report, contact: Tony Lisanti, editor, (212) 371-9400, ext. 221.

Hills: 168 Units by Year-End

CANTON, Mass. — Hills Department Stores will open 15 units during the second half of 1988—a total of 16 for the year—bringing its store count to 168 by year-end.

So far this year, Hills has opened just one unit, its fourth in Indianapolis.

Hills has announced sites for just 10 of the 15 stores: five in Ohio, three in Pennsylvania and one each in Michigan and Indiana. The remaining locations will be revealed at a later date, said Nan Rutter, director of consumer affairs.

This fall, Hills will open stores in Mentor and Willowick (Cleveland), and in Piqua, Ironton and Marietta, Ohio. By year-end, Hills will have 37 stores in Ohio.

The three new Pennsylvania stores will open in Bloomsburg, Cranberry and Ebensburg, for a state total of 44.

The one new Michigan store will be in Kalamazoo, bringing that state's total to eight.

And, with the opening of a fifth Indianapolis store, Hills will operate 15 Indiana stores.

Seven of the new stores will sport 80,000-square-foot layouts, and three will follow the new 62,000-square-foot prototype, for smaller markets.

Hills, with '87 sales of more than $1.51 billion and net profit of almost $32.5 million, reported in a recent 10-K document filed with the Securities and Exchange Commission that opening a new store involves $1.75 million in capital.

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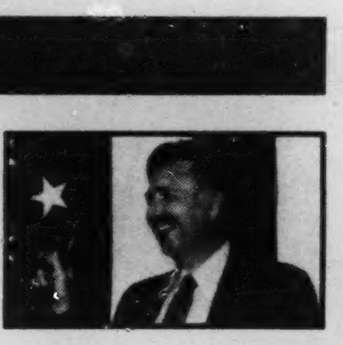

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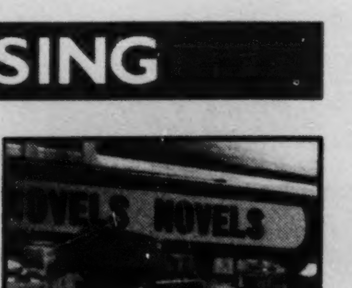

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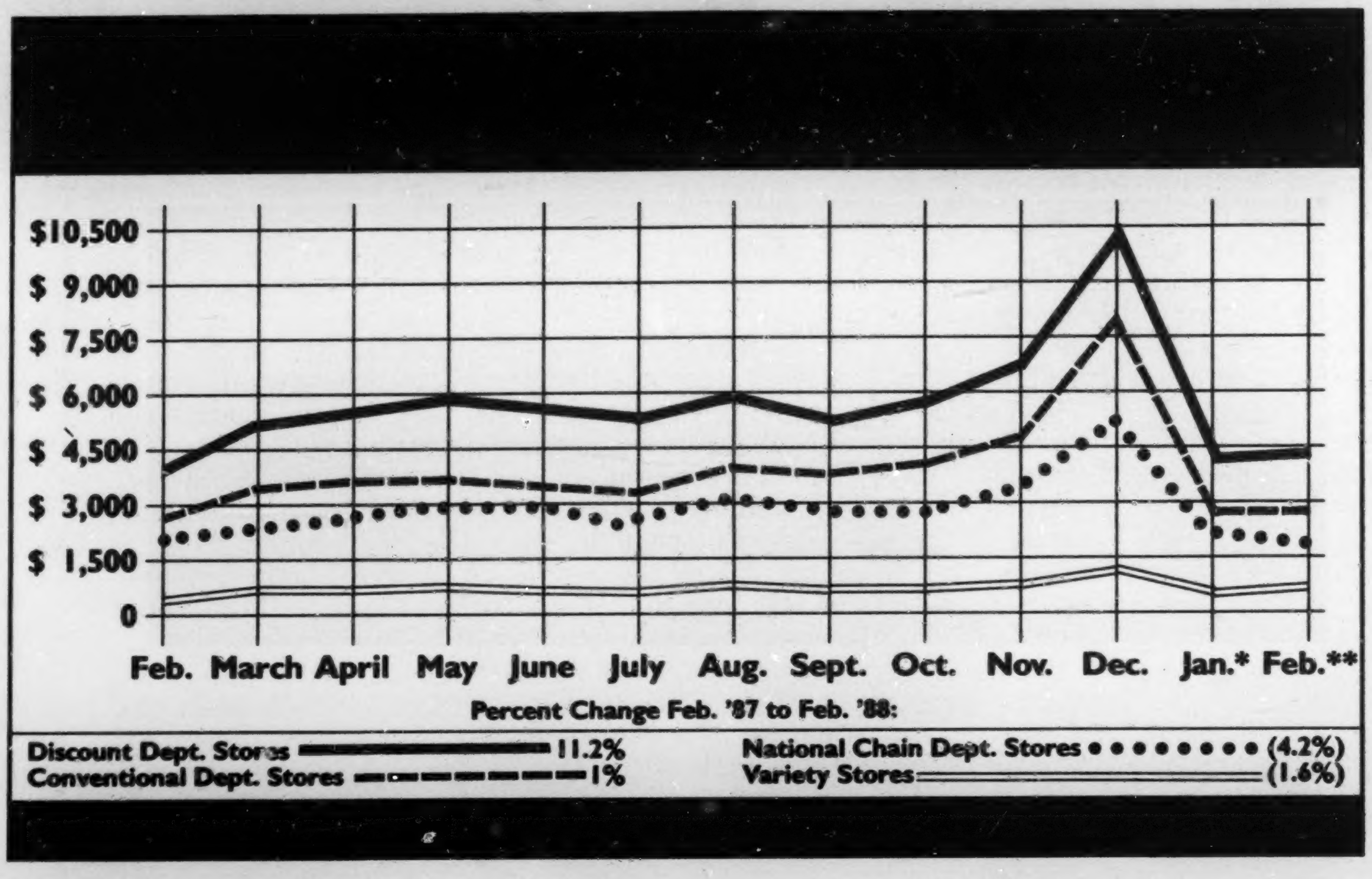
Discounters' February Sales Rise 11% Over 1987

Nationwide DSN Report

Discount department store sales rose a modest 1 percent from January to February to an unadjusted $4.26 billion, an 11.2 percent increase over the same period a year ago, according to the U.S. Commerce Department.

That February-to-February sales increase constituted the largest single sales increase in the general merchandise category, in what was a rather bland sales month for retailers, according to the Commerce Department's monthly retail trade report.



General merchandise store sales, which include discount stores, produced $10.61 billion in sales in February, unadjusted, a 2.8 percent increase over January and a 3 percent gain over February 1987.

Conventional department stores, also part of the general merchandise category, posted the largest January-to-February sales gain, 9 percent.

Sales at conventional department stores rose from $2.6 billion in January to $2.84 billion in February, and were up 1 percent from February 1987.

Only national chain department stores recorded both a year-to-year and a month-to-month sales decline in February. Sales at national chain department stores fell 3.5 percent in February to an unadjusted $2 billion. That's 4.2 percent below the February 1987 sales report which posted receipts of $2.17 billion.

February's variety store sales surged 5.2 percent ahead of January to an unadjusted $548 million, but were 1.6 percent below the $557 million recorded just one year ago.

At miscellaneous general merchandise stores, sales rose 5.3 percent in February to $1.24 billion, unadjusted, but were down 2.8 percent from February 1987.

Total February retail sales in the United States inched up a mere 1 percent over January, to $114.79 billion, unadjusted, 9.2 percent above last February, according to the Commerce Department.

Excluding automobile sales, retail receipts totaled $87.34 billion in February, down 1.5 percent from January and 6.3 percent above February 1987.

The monthly retail trade report released sales data for a host of other retail segments. Their February sales performances proved more erratic than those in the general merchandise group. They include:

- Sporting goods stores and bicycle shop sales, down 0.7 percent in February, to $996 million, unadjusted, up 18.3 percent from February 1987;
- Book stores, down 41.2 percent in February, to $427 million, down 0.2 percent from last February;
- Furniture, home furnishings and equipment store sales, down 0.5 percent from January, to $5.95 billion, up 10 percent from last February;
- Radio and TV stores, down 1.3 percent from January, to $1.68 billion, unadjusted, and up 15.7 percent from February 1987; and
- Apparel and accessory stores, down 4.4 percent in February, to an unadjusted $4.84 billion, up 1 percent from the same period last year.

A Farewell of Sorts: What Makes Winners in Discounting?

(Continued from page 5)

The fact is, no retailer in our business has ever been able to excel over the long haul, no matter how brilliant the concept, the locations or the backing, without having in place a good top-to-bottom people spirit. Joe knows this the hard way. He's been around long enough to have seen all sides of what separates the winners from the losers.

Which brings me to the reason for this column, which is a farewell of sorts with special regards to the people I met, traveled and worked with during the great American retail revolution that produced discount retailing.

It has been 25 years since my name first appeared on the masthead of *Discount Stores News*: as editor in 1963, publisher in 1966, and group publisher and corporate vice president in 1974. All this time with *Discount Store News* until this month, when my name will slip down the masthead to the "corporate" post of vice president of human resources for our parent company, Lebhar-Friedman.

Which brings me back to Joe's focus on his people. In these 25 years I have had the rare privilege of getting to know some of the most brilliant and successful merchants in the business. I shared their dreams and successes and failures, as a business editor/publisher and as a friend.

Over the time I've wondered why some went on to glory, while others didn't. Hindsight may not be 20/20, but I'll share some thoughts on this.

Discounting in the fifties was a rough and tumble, no rules, merchant-dominated time. From Herb Huschman's Two Guys—where they filed serial numbers off TV sets and perfected transhipping to get the branded goods—to Selwyn Lemchen's Topps (later part of Interstate). He was an intuitive merchant who once saved an overbought deal on two carloads of toilet paper by polybagging them and blowing them out at a 12-count price.

Gutsy, innovative merchants led the parade in the 1950s. Success was euphoric as new rebels of retailing fed the post-war demand at bargain prices and in a carnival atmosphere.

But the real winners were the merchants who were leaders. They built their own people chemistry that gave the business its adrenaline—inside and out. Take Korvettes. They laughed at Gene Ferkauf's stickball crew, his high school buddies without any special retail experience. But the chemistry was there and they became the nucleus for Korvette's spectacular growth to the No. 1 spot in discount retailing for more than a decade. Imagine building a business of close to a billion dollars a year in the most competitive markets in the United States—Chicago, New York, St. Louis. They pumped enough adrenaline to take the play away from established traditionals like Federated's A&S.

At least until the drive of the initial dream was undermined by a couple of internal problems. Among them, the inability of good, intuitive merchants to run a multimillion dollar business with the necessary financial and operational smarts. But the other key reason was that the people chemistry soured. And with it, the dream.

That's one of the prime reasons that the successful discounters of the 1960s were those who added financial expertise to their merchandising excellence. Some, like Wal-Mart, reached out for talent. Others got bought. Many traditional retailers (Kresge, Woolworth) brought their talents to discounting when they joined the rebels in the '60s.

What made K mart a winner from the start was Harry Cunningham's homework and the resulting plan to latch an ailing dime store chain onto the new discount phenomenon. What fueled and re-energized the K mart growth were three things:

- Financial strength and expertise;
- Total commitment. It never wilted—to a point in year three where Harry Cunningham was able to get cheers from the stockholders when he announced they were cutting their dividend to help speed the expansion of their born-again company through K mart;
- The Kresge management team. Six hundred seasoned Kresge store managers. Good chemistry. And they prioritized the training and recruiting from the start.

Looking at the survivors in the 1970s, and those who didn't, the fall-out factor was probably market strategy. Woolworth's Woolco and Penney's Treasury are examples—both discount arms from companies with good people, with financial strength. But when the chips were down in the tough competitive market of the '70s, they couldn't win the battle of market share as discounters.

Take Arlan's vs. Wal-Mart's strategy, as we reported in our tenth anniversary issue (December 1972):

Arlan's Ed Spector saw the industry growing "while undergoing a slow evolutionary transition during the '70s. I don't think that if you were to look back at discount stores 10 years from now you would notice any radical change from the stores of today."

> ***'Even more today, you need the people and the people chemistry to make it happen.'***

Wal-Mart's Sam Walton addressed the critical need to traffic stores more effectively with these ideas:

He saw the ideal future shopping center composed of a discount department store with a supermarket and central checkouts under one roof, along with perimeter specialty units. "All stores in the complex would have to be low-margin discount operations to achieve maximum traffic," Walton said. "The entire center would be operated by one discounter."

Shades of Garland, Texas, some 15 years and $13 billion later!

As for Herb Palestine's Arlan's, that great innovator and industry front runner of the early years became history, only shortly after Ed Spector's 1972 remarks. And in fact, Arlan's typifies the early successful discount pioneers. They had the merchandising smarts and took the risks in the free-wheeling '50s and '60s. (Enough to do $337 million in 1971.) But they lost out to the players with stronger financial abilities, and market focus, and a lasting and loyal team. Many ex-Arlan's people are in top jobs around the business today. But as a team, the company had lost the cohesiveness, start-up commitment and spirit.

To these universal success factors—merchant's sense, financial stability—we see the ability to harness the new technology as a new challenge to successful discounters in the 1980s and beyond. The front runners are those companies which have a commitment to create more productive stores—and equally, more efficient ways to move goods to the consumer, whether by stores, mail or electronic channels.

On that point, nothing's changed in the basic mission of a good merchant, and even more today, you need the people and the people chemistry to make it happen. And we're betting that these same universal success factors will carry the front runners of our business into 2013.

I would like to think, in closing, that these same standards for success apply to good publishing, and that we have made a valued contribution to our customers for that reason. Toward that end you will see other changes on our masthead as this publication and all our publications open new opportunities to our talented and developmental people, and as a better way to give value to our readers and advertisers.

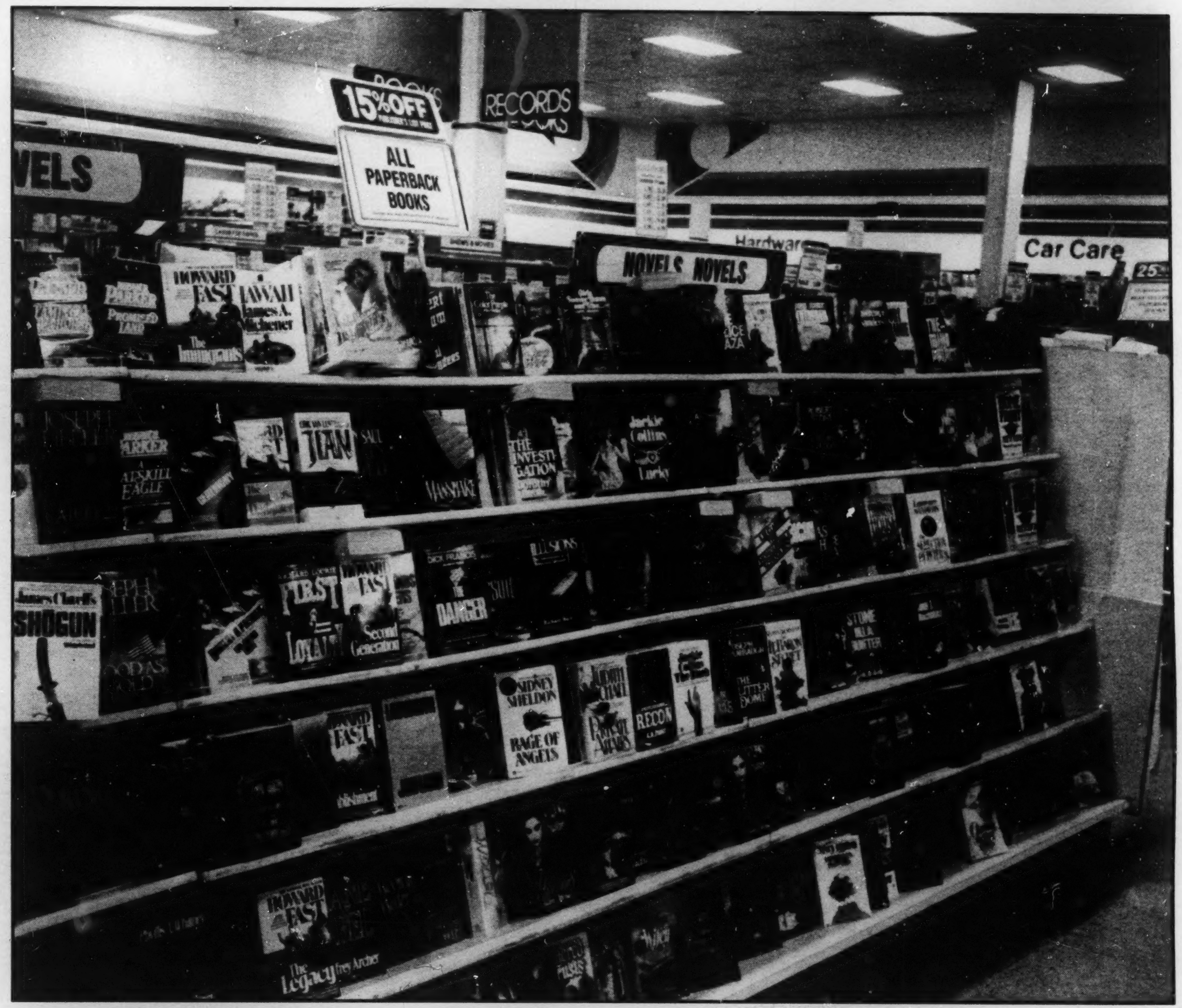
On the editorial side, my thanks for the good hand you have extended over the past year to our new generation editor and executive editor—Tony Lisanti and Don Longo. And on the business side, publisher Fred Filer, who has piloted this publication to record-setting levels over the last four years, was recently named corporate vp with additional corporate assignments.

Also moving up to new publishing responsibilities is John Failla, who has done a fine job as national sales manager. He now adds the title of associate publisher for *HomeMarket Trends*.

And to top it all off, Jim deGraffenreid, who started with this publication as a salesman 11 years ago, now returns as senior vp and group publisher.

I know you will make our people welcome in the same spirit in which you have helped me and all our associates to feel a part of this great business of discount retailing.

Reviews Are Good for Discounters' Book Sales



Research by the Book Industry Study Group found that among discounters, the main reason to carry books is to convey the one-stop shopping image. The secondary reason is to help sell other merchandise and produce impulse sales. (DSN photo)

NEW YORK — Discount and department store retailers garnered nearly $50 million or 10 percent of the $500 million retail book market last year, the second largest non-bookstore segment, according to a just-released study by the Book Industry Study Group.

Sales are expected to accelerate in the coming years, retailers reported in the survey.

The only non-bookstore segment that is larger than discount stores is grocery outlets, with 13 percent of all book sales.

The report, the first ever commissioned by BISG of non-bookstore retailers, was conducted by Coopers & Lybrand, one of the nation's largest accounting firms. It was undertaken because research showed that one of every four books purchased in the United States was bought at outlets other than bookstores. The BISG wanted to know more about these retailers (*DSN*, March 28).

The year-long study found that discounters' primary reason for carrying books is to convey the one-stop shopping image; second is to help sell other merchandise and produce impulse sales; and third is to make money.

Sales Up 7 Percent

In general, the study revealed that book departments are a growing business for non-bookstore operators, with half of the companies interviewed reporting sales have risen 7 percent or more over the past five years. Another 30 percent reported sales gains of 5 percent annually.

The trends are toward expanded departments, cross-merchandising and more selection. In general, the best-selling book category for discounters and non-bookstore retailers is juvenile.

The study also revealed that mass market retailers:

- are served primarily by distributors;
- want to be treated as an important book outlet by publishers and not as an add-on to bookstores;
- want publishers to be more interested in their unique operating qualities; and
- want more promotions and more consistent cooperative ad policies just like their other merchandise categories.

The biggest surprise of the report, said Roy Chefets of Coopers & Lybrand, was how well mass merchandisers reported they are doing with books and how interested they are in expanding the category. "They were excited to talk to us," Chefets said. No retailer interviewed for this survey mentioned cutting back on book titles or eliminating the department.

Types of Books Sold by Mass Merchandisers

Subject	Percent
Bestsellers	12-20%
General Romances	15
Novels	10
Historical Romances	10
Young Readers (Romance, Sports)	10
Westerns	8
Science Fiction	5
Other	22-30

Source: Gallup interview

Coopers & Lybrand interviewed 63 retailers, including seven discounters: Ames, K mart, Hills, Bradlees, Odd Lot Trading Co., Fishers Big Wheel, and Van Leunens. Although the discounters were identified in the appendix of retailers interviewed, they were not specifically identified within the text or in the charts. But some were easily recognizable, particularly K mart, which reported a 150 percent to 200 percent sales gain in the 126 Readers Market formats that its subsidiary, Waldenbooks, operates for the discounter.

The report also included interviews with toy/hobby retailers Toys "R" Us, Toys Galore, Toys By Roy, Craft Showcase, and Harvey's Store.

Buyers Club, Warehouse Club, and Wholesale Plus were the three warehouse clubs interviewed in the survey, and auto supply retailers Hi-Lo Consolidated, Trak Auto, and Western Auto were the representative operators in the auto supply category.

Coopers & Lybrand also interviewed four home center companies, four drug store retailers, three grocery operators, and two each from airport shops, stationery and office supply stores, computer/electronics, convenience stores, tabletop, and specialty store retailers.

BISG and Coopers & Lybrand chose these retailers because they are large, influential chains and would be the most insightful in this category.

Exactly how good, financially, books are for retailers was one piece of information the report failed to provide. Retailers were not precise about sales per square foot and inventory turns. But they did report gross margins of between 20 percent and 50 percent. Discounters, however, maintain book margins of between 22 percent and 26 percent, comparable with total store gross margins of 26.8 percent.

According to specialty distributors, discounters generally operate book departments that range from 80 square feet to 120 square feet. But the discounters interviewed for this report said their book departments range from 36 square feet to 1,000 square feet, the largest of which was clearly K mart's Readers Markets.

Standardized Book Packages

About half of all mass merchandise chains are served by two specialty distributors that supply them with standardized book packages that account for approximately 80 percent of their inventory. The selections break down as follows:

- 12 percent to 20 percent are bestsellers;
- 15 percent, general romances;
- 10 percent each are for novels, historical romances and young readers (romance and sports);
- 8 percent, Westerns;
- 5 percent, science fiction; and
- 22 percent to 30 percent are listed as other.

Generally, book departments at mass merchandisers consist of 70 percent to 80 percent mass market paperbacks, 5 percent trade paperbacks, and 10 percent to 15 percent hardcover books. They are usually 10 percent to 50 percent off the list price.

At K mart, half the book sales are in mass market paperbacks; 25 percent are trade hardcover; 15 percent, trade paperback; and 10 percent juvenile. Of that, 20 percent are promotional books; 33 percent are fiction; 15 percent are paperback bestsellers; 15 percent romance; 10 percent juvenile; 10 percent hardcover bestsellers; 15 percent how-to; and 1 percent each for reference books and sports titles.

At warehouse clubs, books are sold from departments ranging from 15 square feet to 100 square feet and are discounted up to 40 percent. Warehouse clubs seem to like higher-priced books, especially gift and reference books, where they can offer substantial discounts. They carry mass market paperbacks, trade paperbacks, hardcovers, and juvenile board books.

Warehouse clubs carry 50 to 1,000 book titles that are usually limited to bestsellers, higher-priced cookbooks, how-to, references, gift books, sports, and some inspirational titles.

Book departments at toy stores range from 4 linear feet to 48 linear feet, with between 25 and 1,200 titles of juvenile board books, flats, coloring books and puzzles. These retailers also offer trade paperbacks and comics. Juvenile board books, however, comprise about 90 percent of their sales. Books are priced from the publisher's list price to 10 percent to 15 percent below the list.

Auto supply stores reserve about 12 linear feet to books with titles on tune-ups, repairs and DIY.

Primarily, non-bookstore retailers, particularly mass merchandisers, purchase their inventory from distributors. The only exception to this is with juvenile books, which are increasingly purchased directly from publishers in order to attain higher margins.

The most popular kind of distributor servicing mass merchandisers is the specialty distributor, because he services accounts nationwide and attempts to know the nuances of each retailer. This distributor also believes in cross merchandising books throughout the store to encourage add-on sales, which complements the merchandising approach of discounters.

Retail Outlook

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Industry Grows Amidst Consolidation

By Richard C. Halverson
Nationwide DSN Report

Retail analysts agree on at least one trend in discounting: a wave of consolidation is getting ready to crash over the industry as weaker, regional chains suffer from the superior execution of the powerhouses.

Here's what else they foresee as the decade of the '80s grinds to a close:

- The industry will operate fewer, but larger stores;
- All chains will face continuing pressure on pricing, with competitive demands to reduce costs;
- Warehouse clubs, either specialty, or general merchandise and food, will undergo explosive growth to become a phase of discounting as dominant as, especially for business customers, the discount department store was in the 1960s;
- Specialty chains will continue to snatch slivers of market share from full-line discounters;
- The hypermarket will prove itself a success, finding its niche in serving individual consumers, rather than businesses;
- Regional chains would be particularly vulnerable to a national recession as they struggle to maintain their market niches;
- Wal-Mart remains the chain to watch—and watch out for—as it expands its operating territory on its way toward becoming a national chain.

"I see a period of acquisition ahead," said Walter Loeb, senior retail analyst and principal of Morgan Stanley. "The trend is survival of the fittest."

Consolidation is a tradition within retailing, Loeb said. Department store chains, such as May, have gotten larger in order to make more impact on customers and suppliers, he said. Loeb also expects to see more consolidation within the specialty segment, such as The Limited's acquisition of Abercrombie & Fitch.

"The money pool is available, and retailing is a business most investors know," said Loeb.

As consolidation continues, chains such as Gold Circle could disappear, said William N. Smith, vice president and retail analyst for Smith Barney, with their stores split among surviving chains.

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Consumer Confidence, Spending Survive 'Crash'

By Richard Mount
Special to DSN

A recession by 1989?

While economic forecasting remains as much an art as a science, the possibility of a recession should be considered for planning purposes only. There does not appear to be, at present, the necessary causes for one to develop by the end of 1989.

Recessions are usually the result of imbalances within the economy: excess inflation, major problems in financial markets, widespread strikes, or the combination of reduced government spending and higher taxes. Recession can also be externally caused by reductions in raw material supplies, exchange rate difficulties or international financial problems.

The U.S. economy remains essentially balanced internally. During the current expansion, agriculture, capital goods, energy, consumer non-durables, autos, housing and non-residential construction have all undergone periods of weak demand. This has kept gross national product growth lower, but has also kept inflation in check and limited the development of broad-scale imbalances.

This special report on the outlook for full-line discount store sales has been compiled by the *Discount Store News* editorial staff with the assistance of Richard Mount, president of Mount Economic Consulting, a firm specializing in construction, regional and retail trade economics.

For discount store sales, this report utilizes the definition and history of full-line discount stores developed by *DSN*. These stores can be considered those that are multi-department, self-service, high-volume, low-margin, with central checkout and no one predominant product.

Store count figures by region and market were compiled from individual company reports, research by *DSN* editors and the "1988 Directory of Discount Department Stores," a Lebhar-Friedman publication.

Prior to establishing Mount Economic Consulting, Mount was manager of housing, construction, and regional economics for Merrill Lynch Economics, and director of research at Mackay-Shields Economics. He has been on the forecasting committees for Dow Jones and the Housing Market Report.

The economy finds itself in 1988 with four major problems: the federal deficit, the trade deficit, international concerns with the dollar, and problem loans at home and abroad.

Both the federal deficit and the trade deficit are becoming smaller problems as they shrink in both absolute and relative size to the overall economy. The steep drop of the dollar is past, and bankers will intervene to keep it within trading bands by small adjustments in interest rates.

International loan problems cannot be discounted, but if problems do develop, the Federal Reserve Board would reduce rates and worry about the possibility of rising inflation at a later date. If such a problem were to start now, it would not be before the end of 1989 that monetary policy could begin to be tightened.

In short, the economy is in good, overall balance and major problems appear manageable.

Retail Trade

Total retail trade increased 5.1 percent in 1987, exactly the same as in 1986. However, its composition changed dramatically. Auto sales, which had been a major contributor to growth in the current expansion, softened as buyers had to digest purchases in recent years. Auto producers tried to promote sales by bigger and better promotions, but buyers were not ready for more. The rise in auto retail trade, including parts, was only 2.2 percent less than inflation.

Non-auto retail sales, however, increased 6 percent in 1987, up from 4.6 percent in 1986. While most non-auto areas showed sales improvements of at least 5 percent, men's and boys' clothing was up only 0.8 percent and variety store sales only 2.0 percent.

Because of higher inflation in 1987, real sales gains slowed from their 1986 pace. Total real trade was up 1.2 percent in 1987, down from 5.1 percent in 1986. But autos accounted for much of this weakness.

Real non-auto sales were up 2.1 percent in 1987, 5 percent in 1986. Non-auto retail trade softened in the second half of 1987 as consumers turned cautious and built up savings; the savings rate jumped from 2.8 percent in the third quarter to 4.8 percent in the fourth.

National Forecast

	1986	1987	1988*	1989*
Percent Change of Major National Indicators				
Real Gross National Product	2.9%	2.9%	2.7%	2.4%
Real Disposable Income	2.8	1.5	2.8	2.5
CPI-Year-End	1.1	4.4	4.2	4.7
The Housing Market				
Housing Starts (000 Units)	1,805	1,621	1,520	1,490
Resales (000 Units)	3,565	3,520	3,410	3,380
Mortgage Rate	10.1%	10.1%	10.3%	10.7%
Retail Trade				
Total ($ Billions)	$1,437	$1,511	$1,550	$1,600
Percent Change	5.1%	5.1%	2.6%	3.2%
Retail Trade Non-Auto				
Total ($ Billions)	$1,117	$1,184	$1,220	$1,265
Percent Change	4.6%	6.0%	2.9%	3.6%
Full-Line Discount Store Sales				
Total ($ Billions)	$83.2	$84.9	$87.4	$90.2
Percent Change	2.5%	2.0%	2.9%	3.2%

*projected

Source: DSN, Mount Economic Consulting

Discount Store Sales

Discount store sales are likely to increase 2.9 percent this year and 3.2 percent in 1989, vs. 2 percent in 1987. Last year, consumer spending slowed, especially for non-durables. Non-durables should begin the upswing of a new cycle this year. Inflation is headed higher, especially for imported goods, increasing dollar sales. The economy is slowing, and discounters should gain market share from department stores.

The outlook for the economy, and in particular, for full-line discount stores through 1989 will be determined by three major factors: inflation, exports, and consumer confidence.

- Inflation will rise slowly through 1989, with the Consumer Price Index up 4.2 percent in '88 and 4.7 percent in '89 after a 4.4 percent increase in '87.
- With the drop in the dollar that has already taken place, real net exports will improve from a negative $136 billion in 1987 to $120 billion in 1988 and $100 billion in 1989.
- Consumer confidence was shaken in the fourth quarter of 1987 by the stock market crash, but has recovered.

Inflation

Through 1989, inflation should be rising slowly, putting upward pressure on interest rates. While the direction is up, the trend should be gradual, not sharp. The Consumer Price Index rose 4.4 percent during 1987, and is expected to be up 4.2 percent in 1988 and 4.7 percent next year.

Behind the upturn: higher import prices due to the weakness of the dollar, tighter labor markets, and possible spot commodities shortages. For

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Regional Analysis

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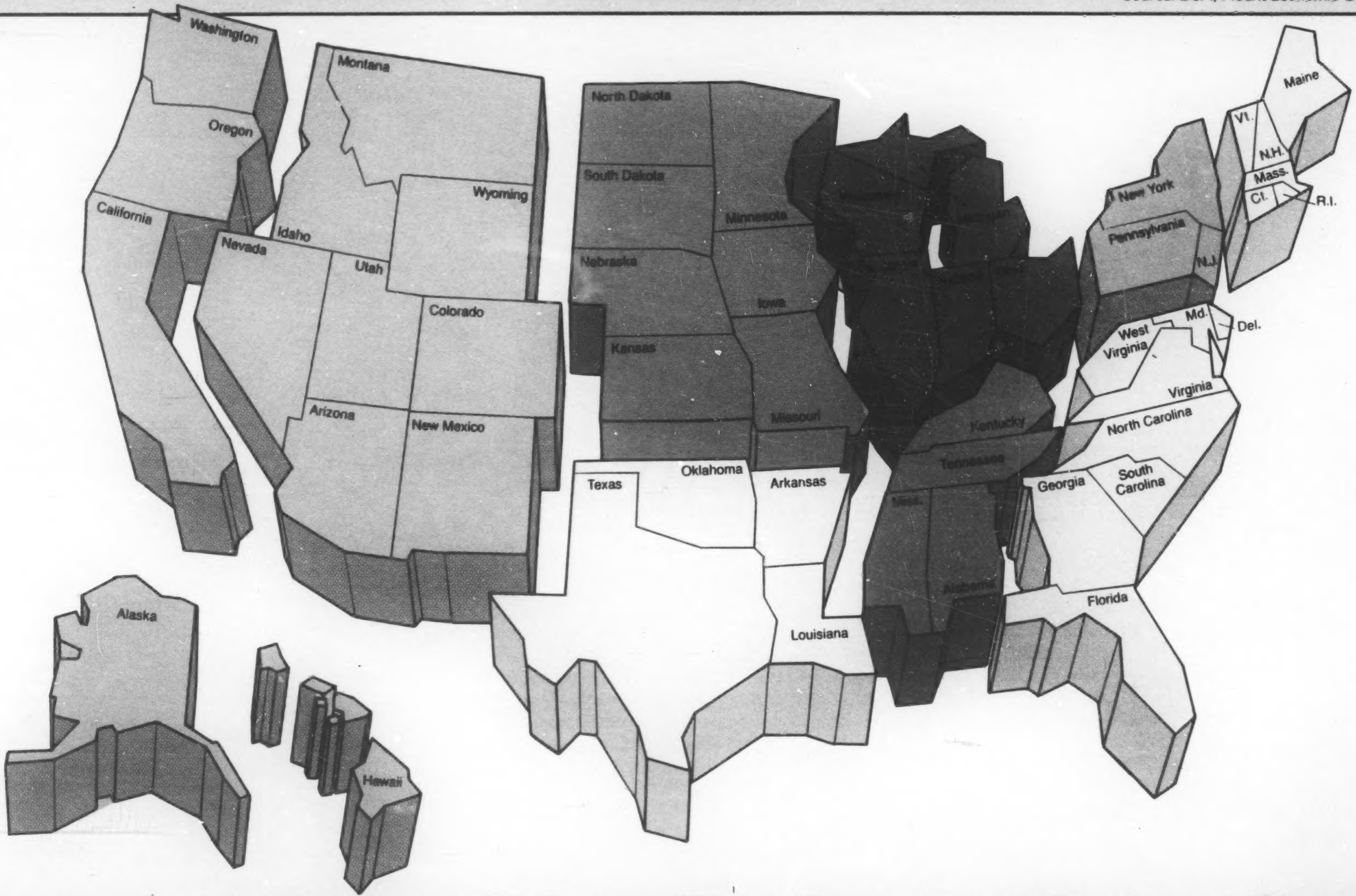
Discount Store Sales Growth by Region

Pacific		Mountain		West North Central		West South Central		[illegible]		East South Central		Middle Atlantic		South Atlantic		New England	
Year	Percent Change	Year	Percent Change	Year	Percent Change	Year	Percent Change	[illegible]	[illegible]	Year	Percent Change	Year	Percent Change	Year	Percent Change	Year	Percent Change
1986	8.1%	1986	2.6%	1986	2.6%	1986	0.2%	[illegible]	[illegible]	1986	8.4%	1986	2.0%	1986	3.5%	1986	2.1%
1987	2.0	1987	1.3	1987	2.1	1987	1.4	[illegible]	[illegible]	1987	2.2	1987	2.2	1987	2.2	1987	2.4
1988*	3.4	1988*	2.4	1988*	3.0	1988*	2.7	[illegible]	[illegible]	1988*	3.2	1988*	2.5	1988*	3.1	1988*	2.8
1989*	3.4	1989*	3.0	1989*	3.3	1989*	3.0	[illegible]	[illegible]	1989*	3.6	1989*	2.6	1989*	3.4	1989*	3.1

*projected

Source: DSN, Mount Economic Consulting



Consumer Confidence, Spending Survive Market 'Crash'

(Continued from page 98)

discounters, higher inflation should be translated into better profits per item and increased sales as consumers shift some of their purchasing from department stores to discounters.

Much attention has been focused on the factors calling for sharply higher price increases through 1989. The two most often cited are:

- The decline in the dollar that would increase the price of foreign goods while giving domestic producers more pricing flexibility;
- The fall in the unemployment rate to 5.5 percent putting pressure on wage rates in many parts of the country.

Factors suggesting a slower increase in inflation are often overlooked, however.

- The lower dollar encouraged many foreign producers to cut their margins rather than boosting prices.
- The drop in the dollar has been against selected currencies, especially Japan and West Germany. There has been little change of the dollar against other trading partners such as Canada, Mexico, Hong Kong and Taiwan.
- Manufacturing has become more competitive internationally in recent years as the number of developing nations with better production capabilities has risen. Many products are produced overseas in countries with very low wage rates, limiting the pricing flexibility of U.S. producers.
- In the current recovery, management has learned to negotiate rather than capitulate to labor demands.
- Capacity utilization rates are high in many industries, but with moderate growth in demand, modest plant investment and intense foreign competition, price increases will not be sharp.

Recent developments in the Consumer Price Index illustrate that inflation remains under control.

In the most recent three months, inflation of the index has been running at a 4.2 percent rate, below the 4.4 percent pace during 1987. While apparel was the major factor behind the 0.5 percent increase in March, it had declined in two of the three prior months.

Interest Rates

Interest rates are headed higher, with the upturn in the second half of 1989 sharper than the near term. This overall rise in rates will be modest by historical standards and, in conjunction with rising income from a growing economy, will not put significant downward pressure on future consumer spending or overall economic activity. While interest rates will trend up slowly through 1989, expect to see fluctuations of at least 75 to 100 basis points around this line as financial markets take time to adjust to change.

During 1987, interest rates moved up in stages through mid-October as the Fed wanted to stem the drop in the dollar. After the stock market correction, however, rates were lowered to stimulate the economy and to ease fears in the financial community. Since mid-March of '88, rates bottomed and began a slow uptick.

Inflation began to increase in 1987.

(Continued on page 102)

Discount Store Sales by Region

(In Millions)

	1986	1987	1988*	1989*
United States Total	83,200	84,900.0	87,400	90,200
New England	6,238	6,384.0	6,564	6,765
Middle Atlantic	10,817	11,054.0	11,327	11,627
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
West North Central	8,174	8,346.0	8,600	8,885
South Atlantic	12,829	13,117.0	13,530	13,990
East South Central	7,005	7,157.0	7,385	7,649
West South Central	10,649	10,799.0	11,091	11,428
Mountain	4,494	4,551.0	4,658	4,799
Pacific	7,585	7,734.0	7,997	8,271

*projected

Source: DSN, Mount Economic Consulting

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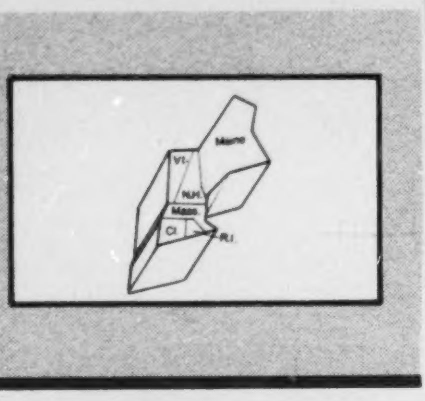
Regional Analysis:
New England
Connecticut • Rhode Island • Massachusetts
Vermont • New Hampshire • Maine



Labor Shortage Pinches Discounters

New England merchants must learn how to operate with fewer store employees through intensified self-service and operating systems, or hope that, contrary to U.S. Census Bureau projections, population levels will take a decided upswing.

New England is an ideal economy for families and businesses: the highest per capita effective buying income levels of any region; overall low crime rates; and a high concentration of states with no sales and/or earnings taxes. Four of the top 10 best places to live, according to *Money* magazine's 1987 report, are in New England.

The influx of high-tech manufacturing firms into New England has been gradually filling a void created when textile, shoe, jewelry and other industries lost their place in the economy, sparking the initial stages of what could become the East Coast's version of Silicon Valley.

"The area has really been helped by high-tech business," said Harry Kohn, Stuarts Department Store president. "It has shifted the area into service-related business from what had been entirely manufacturing 30 years ago."

A problem with this dream economy, however, is the almost non-existent unemployment level, which has become a nightmare for retailers.

New England had the lowest unemployment rate of all regions in the country in March 1987 at 4.3 percent, and then it dropped an additional 1.1 percent to 3.2 percent by March 1988. It is expected that the area will maintain this low unemployment level.

With the exception of New Hampshire, all six states in the New England region are projected to have population growth below the national average through the year 2000, based on U.S. Census reports.

For discounters and other merchants who require an abundance of minimum-wage level employees, the region is the toughest labor market they have confronted.

While the high-tech companies have been able to draw from universities in cities such as Boston and Providence for employee needs, discount stores, department stores, fast food chains and other merchants have not found a ready source of minimum wage employees. Despite staff shortages, sales, in general, have moved in tandem with the high-tech surge.

Lawrence H. Wortzel, professor of marketing for the School of Business at Boston University, said the nature of

(Continued on page 105)

New England Snapshot

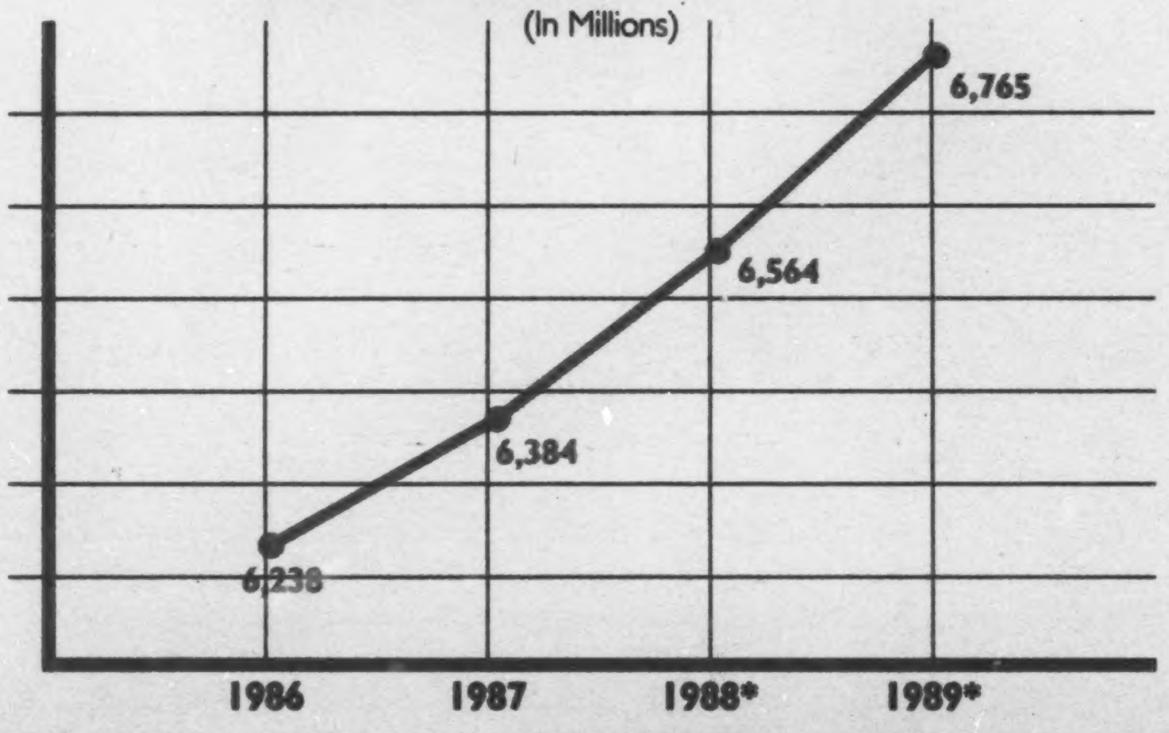
New England was the strongest of the nine regions in the current expansion. Massachusetts was propelled by financial services and high-tech industry; Connecticut by insurance, defense and corporate relocations; New Hampshire has strengthened in manufacturing and housing because of low taxes; and Rhode Island is developing its own high-tech base, a spillover from Rt. 128 in Boston.

Problems for the region through 1989 will not be severe, but growing nevertheless. Labor shortages plague Boston, where the local unemployment rate is 3.1 percent. Housing prices are high and limit homeowners in other parts of the country from relocating to the area. Defense spending is slowing and will harm some rates.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Connecticut	2.8%	3.6%
Maine	6.4	5.2
Massachusetts	2.1	3.8
New Hampshire	4.4	3.1
Rhode Island	1.7	4.3
Vermont	4.9	4.0
Total:	2.9	4.0

New England Discount Store Sales

(In Millions)



*projected

Source: DSN, Mount Economic Consulting

New England Region: Discount Store Count

Chain	Stores
Bradlees	76
Ames	75
Zayre	75
K mart	70
Caldor	56
Service Merchandise	22
Rich's	20
Stuarts	20
Mars	15
Lechmere	12
B.D.'s	11
Consumers Distributing	11
Others	45
Total:	**508**

Source: DSN research

Consumer Confidence, Spending Survive Market 'Crash'

(Continued from page 100)

Price increases during 1986 were restrained by the drop in energy prices and agriculture. As these markets stabilized, overall inflation returned to the rate that prevailed before 1986. The increase in inflation was matched by an upturn in interest rates, keeping the real interest rate at 4.5 percent.

Under current conditions, the Federal Reserve is not likely to try to further reduce interest rates for fear of lowering the dollar. The drop in the dollar since February of 1985 has been dramatic. The trade weighted dollar, a measure against major trading partners, is down about 50 percent from its peak and foreign banks have found it necessary to support the dollar at current levels. With growing foreign pressure on the Fed to take a bigger role in stabilizing the dollar, interest rates will not head lower. And, in this election year, the board does not want to be charged with playing politics.

On the other side, there are two forces against the Fed causing a major increase in interest rates. With inflation still under control, the Federal Reserve does not want to herald a recession. Second, with manufacturing beginning to revive in many regions of the country, higher interest rates would reduce business investment, leading to a contraction in business activity for industrialized states.

With inflation likely to rise in '88 and '89, the pressure on interest rates should increase, but not sharply. Mortgage rates should rise from 10 percent in early April to 10.4 percent by year-end '88 and 11 percent by year-end '89.

Through 1989 housing starts are likely to ease from current levels, but will not undergo a typical roller-coaster housing cycle. This year, starts should total 1.52 million units, down 6.2 percent from last year. For '89, a decline of 2 percent is expected.

Single unit starts will be pressured by rising mortgage rates through next year, and will decline 5.3 percent in 1988 and 4.7 percent in 1989. And, price will be a problem: Buyers have turned to upscale housing and new home prices continue to outpace income gains.

During 1987 when rates rose, single unit starts remained strong as buyers were able to shift to adjustable rate mortgages (ARMs) which are about 200 basis points (2 percent) less than fixed-rate mortgages. ARMs accounted for only 19 percent of new mortgages in April of 1987, but by year-end were a far higher 73 percent. In a rising interest rate environment through 1989, buyers will not be able to increasingly shift to ARMs because of their already high usage.

Resales will not decline as much as housing starts because the average resale offers a more attractive alternative to a new home than in the past. This year resales should be down only 3.1 percent, next year 0.9 percent.

With interest rates on the rise and the ability to tap additional ARMs restrained by the near-record levels currently in use, buyers will turn increasingly to resales.

For discount stores, relative strength in the resale market will be a plus. Before putting homes on the market, smart sellers make small improvements to make their houses more marketable. After the sale, the buyers will purchase new appliances, furniture, paint, rugs and fixtures.

Both housing starts and resales are entering a contraction that seems timid by historical standards of decline. It has not been unusual in prior housing cycles for starts to decline by more than 30 percent in one year. But, savings and loans have changed dramatically in the 1980s and housing now has better access to funds internationally.

The economy is in transition from a consumer and defense spending-led expansion to manufacturing, investment in equipment and exports.

During 1988, economic growth will slow as an inventory correction is likely in the first half of 1988, and the pick-up in exports and capital spending will be slow in developing through 1989. For 1988, the gross national product is expected to increase 2.7 percent; in 1989, 2.4 percent. While rising interest rates will act as a drag during this period, they will not rise fast enough to bring on a recession.

Consumers were the linchpin of the current expansion in the early stages. From '82 to '86 consumer spending in unit volume increased 4.6 percent per year, while the gross national product rose only 4.1 percent. Consumers emerged from the double-dip recession with strong pent-up demand, and they bought increasingly on credit. Consumer installment debt, as a percent of income, rose from 11.8 percent in November of '82 to 16.1 percent in October of '86.

Last year was a turning point. Auto demand slackened as the large number of sales from 1983 to 1986 had to be digested. At the same time, demand for non-durable goods weakened. The year ended on a big question mark: Would consumers retrench in the wake of the stock market correction?

Indicators since October showed consumers were not basing spending decisions on market averages but on incomes and desires. Consumer confidence declined for a short period and then recovered, along with spending.

Nashua, N.H.:

Chains Seek Sites as Megalopolis Edges North

Nashua's current population of about 77,000 is generating disproportionately high retail sales levels.

NASHUA, N.H. — Spotlighted by newspaper, magazine and television reports of its scenic beauty, evolving high-tech businesses, and a 40-mile commute to Boston, Nashua, N.H., may soon be known for its gold mine of retail sales opportunities.

Notwithstanding projections about how Nashua could evolve into a business center in its own right, the current population of about 77,000 already has more than its share of the nation's wealth, and is generating disproportionately high retail sales levels.

The challenge for the Nashua retailer is to find store sites before real estate costs go much higher, or to locate new stores in towns 10 or 20 miles further north than Nashua to get a jump on what has become a steady Northern creep of urbanization radiating from Boston.

Shortage of Workers

Retailers who are looking to open shop in Nashua have found that their only stumbling block besides high real estate costs is the shortage of minimum wage-level employees, a trend which is rampant throughout the New England region and along most of the East Coast.

While the Manchester/Nashua area is only the 138th largest city by population in the country, it is 85th in terms of the number of households that have an effective buying income (EBI) of $50,000 or more, according to *Sales & Marketing Management's* 1987 report. More importantly, it is 16th in terms of its median household EBI, which is $32,617—$8,000 over the national average—and ranks ninth in the country in per household retail sales.

The state of New Hampshire has the lowest poverty rate in the country, 6 percent, and has one of the lowest crime rates in the country, according to *The 1988 Development Report Card for the States*.

Manchester/Nashua is also considered to be the metropolitan area with the largest percentage of fast-growing companies in the country (nearly 6 percent), and second only to Austin, Texas, in terms of new jobs growth, according to *Inc.* magazine's Metro Report, 1988.

Unlike most boom towns, however, Nashua is not yet overstored. Bradlees and Zayre both operate two stores. Rich's, a regional discounter based in Salem, Mass., which presently has one store in Nashua, plans to open a second next year. K mart has a store just outside the Nashua city limits. Stuarts, with one store open, does not currently have any plans to open any others in the town. The only catalog showroom operator in the area presently is Treisman's.

Lloyd Wickett, K mart's director of operations in the Eastern region, said the real magic of the area is not the town itself, but its proximity to Boston that is propelling growth. He said that it is just a matter of time until Nashua's real estate costs catch up with Boston's, driving Boston commuters further north where more property can be bought with less money.

Nashua: Discount Store Count

Chain	Stores
Bradlees	2
Zayre	2
Rich's	1
Stuarts	1
Treisman's	1
Lechmere	1
Total	**8**

Source: DSN research

Very Close to Boston

"It's not that Nashua is where the goose laid the golden egg," said Wickett. "It's the city's proximity to Boston. Property values have gone so high in Boston, and they are rising in Nashua as well. People are putting priority on having more property and better housing, and are willing to sacrifice travel time and the money it takes for an extra tank of gas to get it."

While the latest figures suggest that high property costs have not diluted the strength of the area's retail sales, professor Lawrence Wortzel of the Boston University School of Management believes it could be just a matter of time.

"There are very high housing costs, which has had an impact on discretionary income. We're getting ripples of high costs even as far north as Southern New Hampshire. It does hurt disposable income."

Retailers can work around high real estate costs, Wortzel suggested, by considering second-use or "old space." "There is some old space around, like former grocery stores. They are not the best locations in terms of traffic or access, but it is cheap space. If an operator can find a creative way of using small areas—25,000 square feet—then it could be profitable," he explained.

Howard Rich, president of Salem, Mass.-based Rich's discount stores, believes the labor and real estate problems in Nashua pose real threats to the future of the local economy.

"Our Nashua store is doing quite well, and we plan to open our second store there next year," he said, but then acknowledged that, "the tight labor market combined with the rising costs of real estate—both in homes and businesses, even as far north as southern Maine—might discourage outside companies from coming in."

He further described the labor situation as the worst he has ever experienced in more than two decades with the chain.

Wickett at K mart said the chain has decided not to fight a wage war with other retailers for hourly employees, but will keep pace with the overall market rate. "Otherwise wages are like playing checkers; you only go in one direction. Competition won't let us raise wages. We need to keep costs down in order to keep prices down, so that isn't the tactic we're taking."

Unlike retailers, the high-tech businesses that are flooding the market do not require a large minimum wage labor pool, and can also more easily afford rising real estate costs.

Among the major high-tech firms that either opened regional offices or headquarters in Nashua are: Digital Equipment Corp., maker of digital computers, software, and computer accessories, which has 10 locations in and around Nashua; Algorex-Nashua, maker of printed circuit boards; Analytyx Electronics Systems, which manufactures computer-controlled digital systems; Dataproducts, maker of computerized printers; and many others.

New England Labor Crunch Pinches Retailers

(Continued from page 102)

retailing in the New England market is likely to undergo a transformation in the near future due in part to labor shortages. Discounters could be in jeopardy of losing market share as department stores further develop their own self-service strategies.

"The labor situation here is really tough. We have a shrinking high school age population and we don't even have a large population of retired people to fall back on, because they all move to Florida," said Wortzel.

The answer? "Better training and self-service. Right now traditional department stores are not set up for people to shop for themselves, but if they want to stay competitive they will have to include self-service merchandising into stores."

Discounters have an edge on most upscalers by already being well-practiced in keeping labor costs to a minimum, but chains like Rich's, which has all of its stores in the New England market, will have to work hard to maintain that competitive edge.

"The most important factor in New England right now is the tight labor market," said Howard Rich, president of the 21-unit regional chain.

The company is presently in the process of refixturing its stores to make them, among other things, more "labor saving," Rich said. He added that "Labor has been the biggest challenge. I've been with the company for the past 23 years and in the past year or two, the labor market has been the worst it has ever been."

The chain's same store sales growth figures—9 percent in 1987 and projected to be between 6 percent and 7 percent during 1988—indicate that, despite labor shortages and competition from other New England retailers like Bradlees, K mart, Zayre, Ames and Caldor, business has been good.

In contrast to Rich's approach, K mart's Lloyd Wickett, director of operations in the Eastern region, said the discounter has been cutting labor costs through automation.

"Automation will help us more and more down the road," Wickett said. "We're already about 60 percent finished. It should be about two more years before it is complete."

Automation of checkouts will speed checkout time by 27 percent, Wickett noted, and will also reduce the time used for merchandise ordering and receiving.

"You're not going to wave a magic wand and expect your labor problems will disappear. There is obviously a shortage and it's not going to go away for at least another 15 years down the road," Wickett projected.

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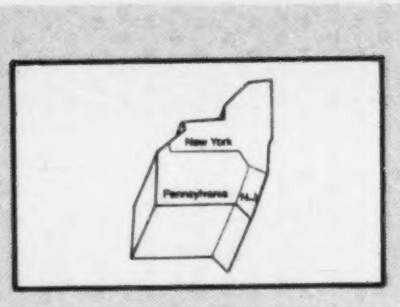
Regional Analysis:
Middle Atlantic
Pennysylvania • New York • New Jersey



A Pair of Distinct Economies Co-Exist

Middle Atlantic Snapshot

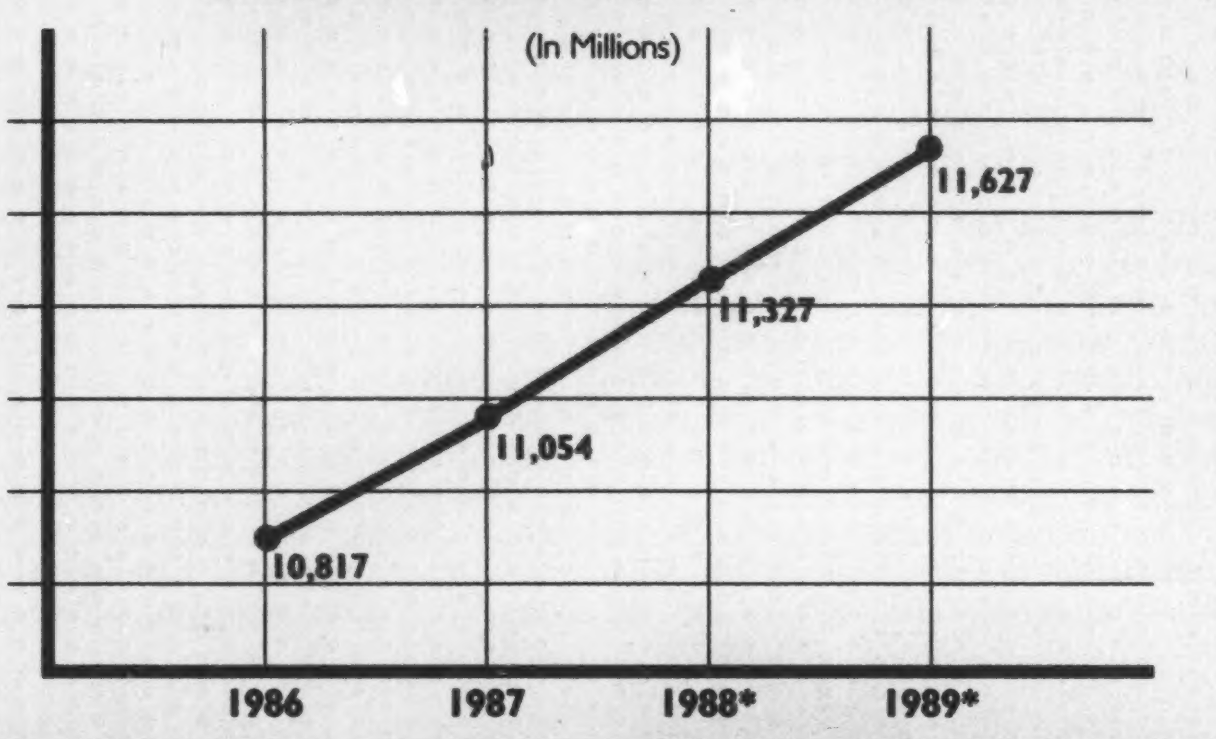
Growth in the Middle Atlantic states has fueled the expansion of financial services in New York City and Philadelphia. Strength in defense has boosted activity on Long Island. Those parts of New York and Pennsylvania that had a concentration in manufacturing, mining or agriculture have been weak for the most part in this expansion.

After the October fall in the stock market, the bloom is off the New York rose. Approximately 16,000 layoffs took place in the New York financial markets during the first quarter of 1988. While most of these individuals have found employment elsewhere, total compensation is likely to be less and confidence about the future is certainly lower. The manufacturing sections in the Middle Atlantic are beginning to show some life, offsetting much of the weakness in services.

The major problem for the region is construction. Vacancy rates in Manhattan office buildings are climbing and, with much lower rentals in other parts of the country, many firms are moving departments to New Jersey or the Southwest. Land prices have escalated to the point that moving into the area from other sections of the United States is prohibitive.

State	Employment Percent Change Feb '87 to Feb. '88	Unemployment Rate (Feb. '88)
New Jersey	2.7%	4.0%
New York	2.3	4.4
Pennsylvania	2.8	5.9
Total:	2.5	4.8

Middle Atlantic Discount Store Sales



*projected

Source: DSN, Mount Economic Consulting

A range of mountains, called the Poconos in Pennsylvania, slashes southwestward through New York and Pennsylvania, generating updrafts that enable glider pilots to set long-distance sailplane records flying down to Virginia and back.

These mountains also serve as a geographical dividing line that cuts the Middle Atlantic Region—New Jersey, New York and Pennsylvania—into two distinct economies.

To the east: the booming, service-based economy centered on the Philadelphia to New York City axis. To the west: the now-recovering manufacturing economy centered around Pittsburgh, Buffalo and Rochester, N.Y.

A comparison of unemployment rates between western and eastern Pennsylvania illustrate differing fortunes of the two zones: Philadelphia, 4.2 percent, and nearby Lancaster County, 3.5 percent, contrast sharply with 6.2 percent in Pittsburgh and 9.4 percent in nearby Beaver County, where thousands of former steel workers may never work again.

Regional Comparisons

The April unemployment rate in New Jersey and New York dipped to 3.5 percent, while the rate in Pennsylvania slipped to 4.8 percent.

With the exception of New Jersey, population trends have been unkind to the Middle Atlantic region. Although New York is still the second largest state in the nation, it grew only 1.5 percent between the 1980 census and 1986. Pennsylvania grew only 0.6 percent, and New Jersey—the most densely populated state in the nation—making it a retailer's dream—grew 4.2 percent, the Census Bureau reported.

"I can't foresee any recession for the Middle Atlantic," predicted Robert Hayes, corporate economist for K mart. "New York is working well. New Jersey is one of the real economic success stories."

Despite Pennsylvania's problems such as the decline of coal, the two major metro areas of Pittsburgh and Philadelphia are doing well, each for its own reasons, Hayes said.

Even though the Pittsburgh area lost 150,000 steel industry jobs over the past eight years, it has developed into a technological center and a western focus for financing. In addition, Pittsburgh has become a top location for corporate headquarters, he said.

On the downside, the recent closing of Volkswagen's assembly plant in Stanton, Pa., affected the primary metals industry, Hayes said. That plant once employed 15,000, but had dwindled at the end to about 3,000.

The chemical industry boom is helping Buffalo and Rochester, home of Eastman Kodak, K mart's economist said. "Kodak has turned itself around, and that helps the retail sector.

In part because of the decline in the dollar, increased exports are helping boost port activity in Philadelphia and Elizabeth, N.J., he said.

Since the crash, the New York City and Northern New Jersey financial services industry has lost 10,000 to 12,000 jobs, Hayes said.

"The east and west [areas of the region] are two different worlds," said Mark Zandi, director of regional forecasting for the WEFA Group, an economics reporting service located in Bala Cynwyd, Pa.

The west failed to share in the national economic boom from 1982 on, Zandi said, and its manufacturing base has undergone severe restructuring.

But the outlook is changing with the increase in exports. Manufacturing once again is producing jobs, he said.

From 1982 through 1987, the financial sector drove the service-based economy of New York, Northern New Jersey and Philadelphia, Zandi said. Following the stock market crash, the financial sector will experience only slow growth, causing a ripple effect on law and accounting, he predicted.

The boom in the eastern part of the region has created a labor shortage, Zandi said.

Despite its services orientation, the east still has a fairly strong manufacturing base, Zandi said. Industries such as food processing (Campbell Foods, Camden, N.J.), electronics, (Commodore, West Chester, Pa.) and drugs (Smith Kline, Philadelphia), provide about 18 percent of the jobs, or the same proportion as in the national economy, Zandi said.

With the exception of apparel, retail sales and employment in the region remain strong, said William Dunkelberg, dean of the School of Business and Management, Temple University.

The usual January slump didn't occur, so on a seasonally adjusted basis, retail employment has gained from 1987, the economist said.

"Western Pennsylvania is showing a lot of strength and is catching up with the rest of Pennsylvania," he said.

Unemployment for the region is running at 4.8 percent for the second quarter of '88, Zandi's WEFA Group calculated, compared to 4.9 percent in 1987.

The total number of non-farm jobs in the region stands at 16.8 million, WEFA estimated, including 3.7 million in trade.

Employment, Income Growing

Employment in the second quarter is growing at an annual rate of 0.5 percent, compared to 2.4 percent for all of 1987. Personal income is gaining 5 percent annually, WEFA reported, with real personal income, in 1982 dollars, growing at about 1 percent.

Housing starts are running at an annual rate of 148,250 for the three states, down from 166,340 in 1987, WEFA reported. Single-family starts are running at an annual rate of 122,020 a year, against 131,600 last year. Multi-family units are faring worse: a 26,230 annual rate against 34,740 in 1987.

In store count, K mart leads the region with 215 units. Long Island, with its high land costs and incomes, remains one of the few major markets in the region without a K mart.

The region boasts the first East Coast hypermarket, Carrefour's new unit in Philadelphia. But plans for a second Carrefour on Long Island are being held up by a zoning dispute.

Ames and Jamesway, two regional chains, operate 111 and 93 stores, respectively, in the three states.

In store count, three other major chains are closely bunched: Hills, 59; Bradlees, 54; and Caldor, 50. Zayre operates 31 stores.

The catalog showroom industry is well developed in the region, with a total of 191 outlets, including: Best Products, 17; Service Merchandise, 27; and Consumers Distributing, 74. The total includes a number of regional chains, such as David Weiss Jewelers, 18 units in Pennsylvania only, and The Present Company, 20 units in New York.

The region has 15 warehouse clubs: BJ's, nine; Price Club and PACE, two apiece; Makro, one; and Net Cost Club; an independent, one.

Independent chains operating primarily within Pennsylvania include: Gee Bee, Johnstown, 17 units; Laneco, Palmer, 16 (including two in New York); Mailman's, York, six; and Sugarman's, Eynon, three.

The New York metro market has spawned two local chains: TSS-Seedman's, 16 stores, primarily on Long Island; and Alexander's, 13 stores, including two in Northern New Jersey.

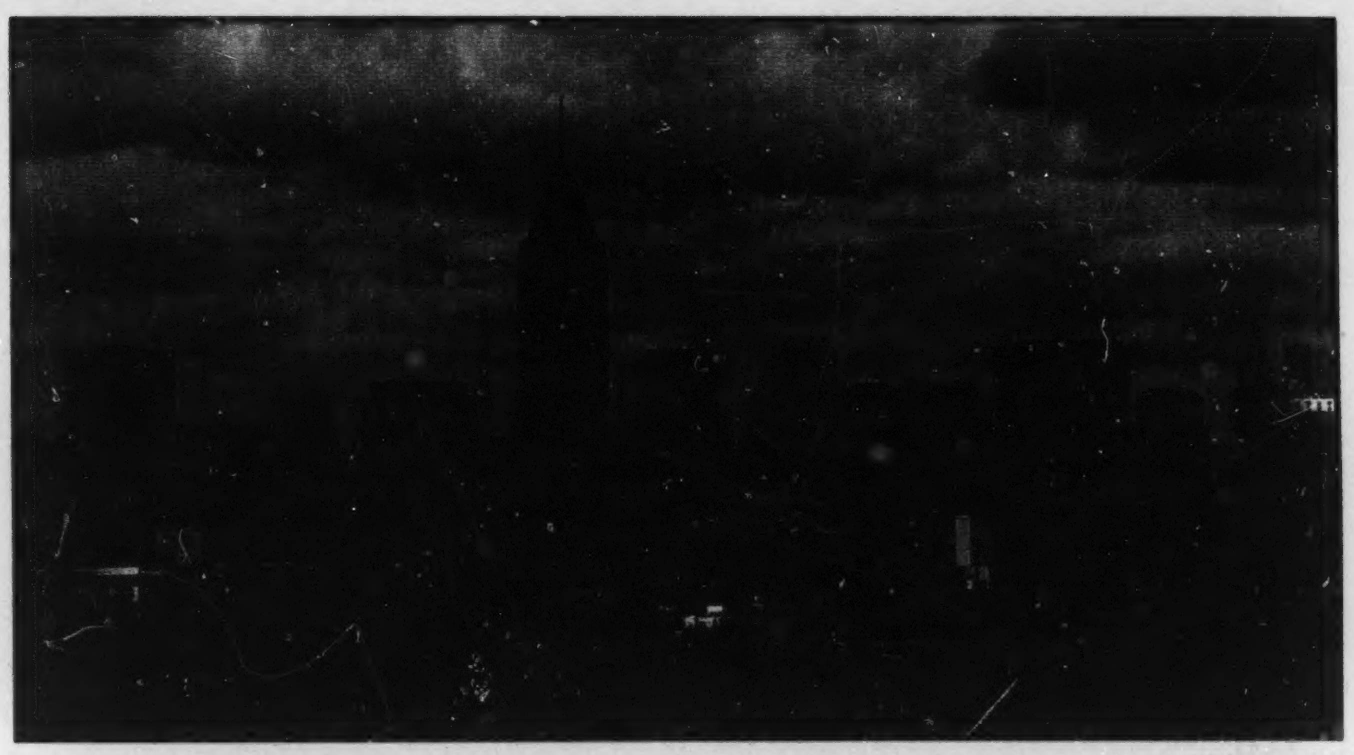
Middle Atlantic Region: Discount Store Count

Chain	Stores	Chain	Stores
K mart	215	S.E. Nichols	23
Ames	111	Clover	22
Jamesway	93	Present Co.	18
Consumers Distributing	74	Best Products	17
Hills	59	David Weiss	17
Bradlees	54	Fisher's Big Wheel	16
Caldor	50	TSS-Seedman's	16
Murphy's Mart	38	Brand Name Sales	14
Family Dollar	35	Alexander's	13
Zayre	31	Gold Circle	12
Service Merchandise	27	Others	55
Dollar General	23	Total:	1,033

Source: DSN research

Philadelphia:

Many Discount Formats Battle for Dominance



Increased competition has discounters in Philadelphia fighting for market share.

PHILADELPHIA — All right; so The City of Brotherly Love did slip to fifth place in the United States in population in 1986 from fourth place in 1980. Still, "It's a good discount town," said Robert Hayes, corporate economist for K mart.

The eight counties that comprise the Philadelphia market, including three across the Delaware River in New Jersey, "have a degree of sophistication that enables them to accept new ideas," Hayes said. And their workers, once predominantly blue collar and unionized, enjoy high incomes, he said.

Philadelphia always has been a good market for K mart, the economist said. "It's one of the areas being 'discovered.' "

Carrefour discovered Philadelphia back in February, opening its first hypermarket in the United States and the first on the Eastern seaboard.

Boscov's, a promotional department store chain based in Reading, Pa., discovered more potential in Philadelphia last fall. It opened two more of its Ports discount stores in former department store buildings acquired from Campeau, pushing the count for its fledging chain of soft lines discount stores to four.

Net Cost Club discovered Philadelphia in November 1986, introducing it to the warehouse club concept. Makro and BJ's Wholesale Club discovered that the metro market can support two additional warehouse clubs.

In the early '80s, Bradlees and Caldor learned that their upscale approach to discounting could break the discounting oligopoly that K mart and Clover, the discounting chain that Strawbridge & Clothier started in 1971, once enjoyed.

And Jamesway and Ames, traditionally shooting for small town markets, discovered they could exist on the periphery of a major metro market with a population of 4.9 million.

Family Dollar and catalogers Best Products and Consumers Distributing have discovered that they could capture slivers of the discount market with a handful of stores apiece.

In the early '80s, Philadelphia significantly lagged behind the national economy in growth, but it has caught up in the last two years, said Mark Zandi, director of regional forecasting for the WEFA Group, Bala Cynwyd, Pa., economic forecasters.

Philadelphia SMSA: Discount Store Count

Chain	Stores
K mart	30
Clover	19
Bradlees	15
Ames	11
Jamesway	11
Best Products	8
Consumers Distributing	5
Family Dollar	5
Caldor	4
Ports	4
BJ's Wholesale Club	2
Carrefour Hypermarket	1
Makro	1
Net Cost Club	1
Total:	117

Source: DSN research

The unemployment rate for Philadelphia is running at 4.2 percent, lower than the 5.6 percent national rate, the WEFA economist said.

Zandi projects that the number of wholesale and retail jobs in the market will increase 0.9 percent in 1988 to 503,200 from 497,700 last year. The total of all jobs will increase 1.9 percent, or 40,000, to 2,197,000 from 2,156,000 in 1987.

Labor Shortage a Problem

Because of the tight labor market, retailers here are having trouble finding qualified workers and must pay higher wages than elsewhere, Zandi said. Carrefour, for example, pays $5 an hour to the youngsters who roller skate around the cavernous hypermarket for price lookup, he said.

The number of housing starts should total 20,000 in 1988, high by Philadelphia standards, although below the 1987 rate of 23,900, Zandi said.

Personal income will grow 7.2 percent to $84.6 billion in 1988, from $78.8 billion last year. Although the growth rate in current dollars is 6.4 percent for the nation as a whole, adjustment for higher prices in Philadelphia, particularly for housing, reduces the growth in real income below the national rate.

K mart, with 30 stores in the metro area, and Clover, with 19, (soon to be 20) "pretty much had the discount market to themselves," said Arthur Keough, director of the Retail Council of the Greater Philadelphia Chamber of Commerce.

With increased competition, discounters now are fighting for market share, he said. "In terms of longevity, there's no question that Clover is dominant," Keough said.

"The votes are still out on Carrefour," he added. Judging by ads, Carrefour seems to be the price leader for general merchandise, he said.

Makro, which K mart just bought as a way to get into the warehouse club business, doesn't appear to have made much of an impact on the Philadelphia market, Keough said.

All of Philadelphia is a "price discount" market, even on food, said Mercia Grassi, professor of marketing and director of the International Forum on Marketing, Drexel University. The Philadelphia economy, on the upswing, provides a lot of jobs, Grassi said. "Consumers here will spend for value. The area has so many chains that no one is dominant," she said.

"Clover will survive because it's Strawbridge's," Grassi said. "The Strawbridges are phenomenal merchants at providing value and service, and own the older market."

Carrefour "has done its homework," Grassi said. "It's sensitive to the price-oriented Philadelphia consumer who demands value for his money."

Its prospects for survival are good, she said. "I'm waiting to see what changes" K mart will make with Makro, Grassi added.

K mart chairman Joseph Antonini told a group of New York analysts last month that he plans to institute a "serious reorientation of the general merchandise part" of Makro's business.

"If anybody can do it, it's K mart," Grassi said, "but the jury's still out."

Caldor, K mart and Clover all are getting ready to open one additional store in the Philadelphia market this year, said an executive of a chain who asked to remain nameless.

Surveys of consumer perception show that K mart and Clover are the two top chains, while Bradlees trails in the No. 3 spot, according to the executive's research.

Makro has had little impact on the Philadelphia market, the executive said, and Carrefour is affecting mainly supermarkets rather than general merchandise chains.

A question mark hangs over the future of Bradlees' southern district stores, the executive said. A recent press report said that Boston-based Stop & Shop, its parent, intends to sell 50 of its Bradlees units from Philadelphia south.

'No Bradlees Are For Sale'

Rumors about selling the stores have been circulating since Stop & Shop went private in February (to avoid a takeover attempt by the Dart Group), a Bradlees spokeswoman said. "None of the stores are for sale," she said.

Although no offer to sell has been made, Clover would be interested in acquiring some of the 15 Bradlees in the Philadelphia market—the ones that don't compete with its own stores—the executive said.

Ports, the expanding discount chain of Boscov's Department Stores, runs "an extremely heavy volume of newspaper advertising" and provides added new competition to established chains, such as Clover, the executive said.

Ports, originally named Ports of the World, offers no automotives, hardware or sporting goods, but offers all other traditional department store goods at discount prices, including much of the same brand name apparel that Boscov's carries.

"I'm not too impressed with Carrefour," said a nearby K mart store manager. "I've shopped them, and my store carries just as many sku's [of general merchandise], but they're spread out over three or four times the area. Except for endcap specials, prices are the same or higher," he said.

Carrefour, whose forte is food, prompted a nearby Shop Rite supermarket to slash prices, the K mart manager said, a move that brought its lost customers right back.

Makro doesn't appear to be doing a tremendous amount of business, he said, and needed K mart capital to expand.

Bradlees and Caldor are slugging it out for the same upscale customers, according to the K mart manager, adding that Bradlees has changed its advertising recently, to a generic format from one emphasizing specific goods.

K mart has no one primary competitor, the manager said, giving credit to Clover as a promotional chain that engages in a good advertising program. "Some of their stores are nice," he said, "and others aren't so nice. They're spotty."

Bradlees is the major competitor for Caldor, a Caldor store manager said. "Bradlees carries most of the same merchandise that we do at the same price," he said.

Price Comparisons

At Clover and K mart, some things are cheaper than at Caldor, he said.

He estimated that Carrefour carries only about 8 percent of the general merchandise items that Caldor offers, so it is affecting food stores more than general merchants.

Makro is a hybrid, explained the manager of a BJ's Wholesale Club, rather than a true warehouse club. He said Makro carries 21,000 sku's compared to 4,500 for a BJ's.

"I'm settling back and waiting to see what K mart does [with Makro]. It makes sense to join the rest of the warehouse industry, rather than stand alone."

Carrefour is providing a "a little bit of competition" to BJ's, primarily in food, he said.

The BJ's in Maple Shade, N.J., "is doing tremendously well," he said, while the newer BJ's in northeast Philadelphia that opened last September is "running slightly below projections but is expected to get on track by the fall."

"The general economy appears to be pretty healthy," the BJ's manager said. "There isn't a tremendous amount of unemployment."

Makro will reduce sku's now that K mart has bought a 51 percent interest, said Greg Hanselman, vice president for store promotion. But it will never get down to the 4,000 sku level of a BJ's, he said. A hybrid label for Makro is accurate, Hanselman said, describing his store as "an upscale warehouse club" that carries department store brands of apparel.

Problems with real estate rather than capital have hampered plans to add two more units in the Philadelphia market, Hanselman said. A proposed site in Cherry Hill, N.J., fell through because of zoning, he said. Although Makro has lined up another site in New Jersey, Makro won't be able to open until 1989 or even 1990, he said.

Makro expects to find another site in Philadelphia and open a second unit next year, he said.

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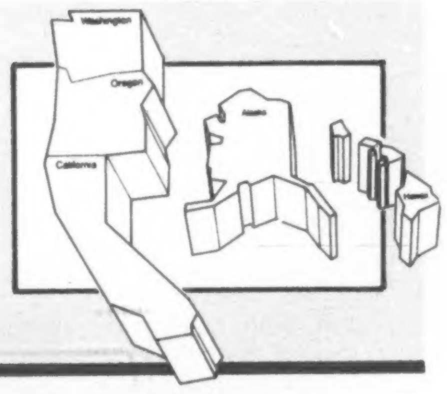
Regional Analysis:

Pacific

Washington • Oregon
California • Alaska • Hawaii



California Leader in Diversification

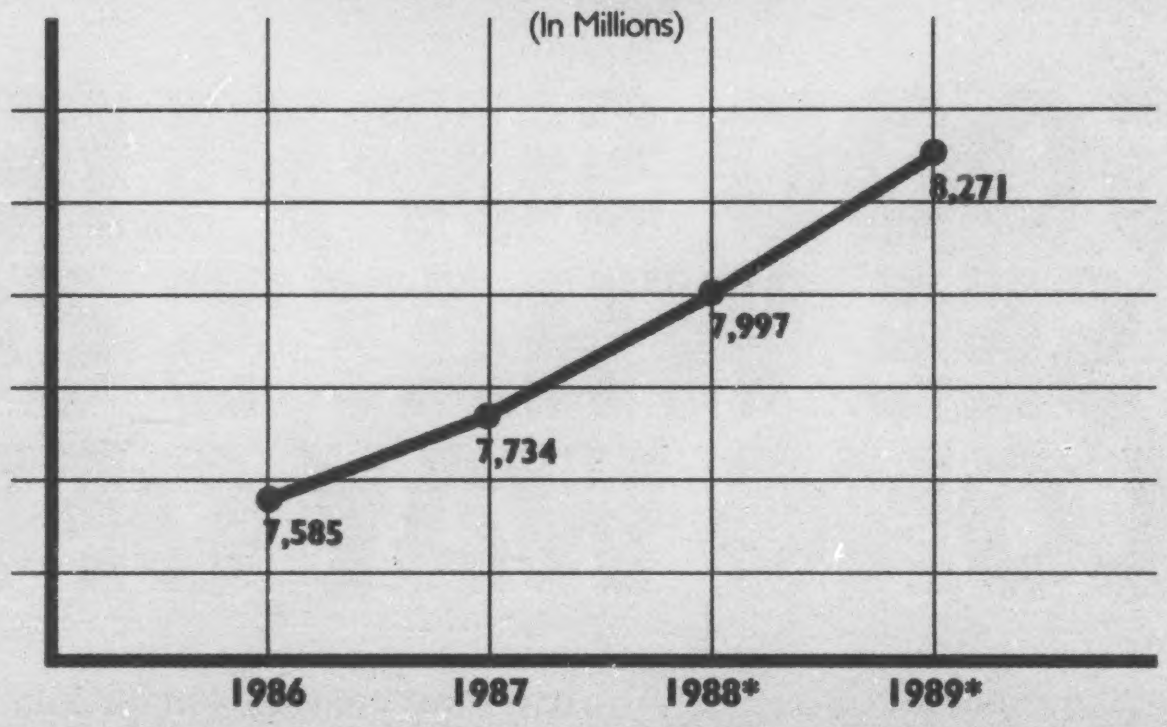
Pacific Snapshot

The Pacific states' economy is dominated by diversified California which continues to grow faster than the United States. The real stories in the past year have been elsewhere, however. Oregon and Washington are growing faster than usual, propelled by lumber and paper demand. While housing starts are in decline, the drop in the dollar is boosting exports. Alaska is among the weakest of states in the nation with almost the highest unemployment rate. As with the West South Central states, Alaska will remain soft through 1989.

Through 1989 the region will be slightly stronger than the nation. California will remain strong, but the high growth rates in Oregon and Washington should stabilize.

State	Employment Percent Change Feb. '87 to Feb. '88	Unemployment Rate (Feb. '88)
Alaska	(0.6%)	11.1%
California	4.0	5.8
Hawaii	3.2	3.3
Oregon	4.5	7.2
Washington	4.7	7.8
Total:	4.0	7.0

Pacific Discount Store Sales



*projected

Source: DSN, Mount Economic Consulting

Encompassing five Western states, the nation's Pacific region is dominated by California, with the Golden State's diversification providing a strong base for survival under varied economic climates.

Washington, Oregon and Hawaii also provide strength to the region's general economy, but Alaska continues to struggle under the drop in oil demand and high unemployment rates.

Despite Alaska's negative drain, the region generally registers as one of the nation's strongest areas and local economists expect this trend to continue in the coming months.

The most recent unemployment level for the region, posted in March of this year, was 5.7 percent, according to the U.S. Census Bureau. And while unemployment has remained at low levels, 6.0 percent for all of 1987, the population has continued to grow.

As of July 1, 1987, the Pacific Region reached 36.5 million people, up from 35.7 million people in 1987 and up 14.9 percent since 1980. Leading the growth during the last seven years is Alaska, where population grew 30.7 percent, and California with a 16.9 percent growth. However, Hawaii's population sprang up 12.2 percent, Washington's grew by 9.8 percent and Oregon's numbers grew slightly, by 3.4 percent.

Typically Better Job Market

What drew many of the people to the Pacific region during this time was typically the better job market. Although many once-economically strained parts of the country have regained some momentum of late, most of these states still present some of the best growth prospects nationally.

Unlike many areas, the Pacific region holds a diversity of job sectors, ranging from the lumber industry in the Pacific Northwest to the computer chip business in Northern California's Silicon Valley to the heavy military/defense spending in parts of Southern California.

Tapering in Defense Spending

While defense spending is expected to taper off somewhat in the coming months, economists and area retailers still believe the majority of the Pacific region will continue to prosper. Already the area is benefiting from the lower dollar value vs. the Japanese yen, with exports picking up and foreign investment pumping in new monetary resources.

The investment in the region is apparent in many areas, particularly Hawaii, because of its closer proximity to the Orient, and the state is expected to continue to receive further capital injections, according to Carol Bray, assistant vice president and regional economist for First Interstate Bank.

The Pacific Northwest is also benefiting from the lower dollar by increased trade and improved demand for natural resources such as lumber. After suffering from several recessions in the past, Washington and Oregon have taken steps to better insulate themselves from future downturns.

Lumber mills have been upgraded and modernized, and in Seattle, the economy is benefiting from recent large commercial aerospace orders, which will supply jobs over the next few years and will not be affected by defense cuts, explained Wells Fargo Bank economist Bob Skinkle.

However, as retail analyst Sarah Stack with Bateman Eichler, Hill Richards noted, there are pockets of prosperity throughout the region. While the coastal areas of the Pacific Northwest are prosperous, the eastern agricultural regions are still somewhat depressed.

Still, discounters have recently become more interested in the Pacific Northwest, entering markets well-established by local chains like Fred Meyer and Pay Less. This July, Target will open its first wave of stores in both Oregon and Washington and the chain expects to have 35 stores in operation within the next five years. ShopKo entered the market already and is planning additional stores.

While these chains invade Fred Meyer's territory, the one-stop-shopping retailer is still expanding, experimenting with varied concepts and is taking a limited version of its stores to some areas of Alaska. Alaska, however, remains depressed as the state still fights to overcome the oil price drop. According to Bray with First Interstate, Alaska will still see economic decline this year, but the drop should stop in 1989.

Pacific Region: Discount Store Count

Chain	Stores	Chain	Stores
K mart	214	G.I. Joes	11
Pay Less	208	PACE	9
Pic 'N' Save	98	Hartman's	9
Target	82	Fedco	9
Fred Meyer	72	Price Savers	8
Best Products	48	Gem of Hawaii	5
Bi-Mart	33	Holiday Mart of Discount Department Stores	3
Costco	28	ShopKo	2
Price Club	24	Jewelcor	2
Yellow Front	15	Buyer's Club	1
Service Merchandise	13		
Total:			894

Source: DSN research

Beyond four Fred Meyer stores, the only other discounters in Alaska are Costco with one site and Price Savers also with one site—national retailer K mart is not in the state.

Most discounters have instead turned their attention to California, as the state remains the total population and job leader for the region. Population in California reached 27.6 million as of July 1987, with Los Angeles-Anaheim-Riverside Counties in Southern California holding 13.1 million people as of July 1986.

While general interest has held steady over much of California, it is the Southern portion which still rates most of the attention from retailers.

Here, discounting proliferates in all forms, from traditional discounters to membership warehouse clubs to small and large off-price apparel chains. Although the area formerly supported several general merchandise discounters, chains like Zody's and Gemco have folded in recent times leaving behind primarily K mart and Target.

In Southern California, discounting proliferates in all forms, from traditional discounters to membership warehouse clubs to small and large off-price apparel chains.

While Target picked up many of the Gemco sites and business, the membership warehouse clubs have also made a significant dent in the discount industry. Including Price Club's initial membership warehouse creation, Southern California has also spawned several new forms of retailing, proving a generally good breeding ground for new enterprises.

Innovative home furnishing retailers Home Express and STOR began here as did numerous off-price chains and specialty warehouse clubs such as All American SportsClub and the Price-Rite health and beauty aids warehouse.

Economists expect Southern California to remain a good market for retailing, although a very competitive one. "Southern California in particular will continue to represent the retail market with the most potential," explained analyst Stack. However, she pointed out the potential for unit growth is limited unless retailers enter the Inland Empire east of Los Angeles or acquire space through acquisition.

And because California is expected to fare well in coming months, while most of the region's other states hold to steady growth, the entire area should remain economically strong.

"There are a lot of positives that we see for spending in the West . . . and on the whole we are seeing a stable growth pattern," said Wells Fargo's Skinkle.

San Diego:

Military, Tourism Put Dollars in Retailers' Pockets

> ***The dominance by Price Club, discounters and promotional chains has given the industry a secure footing in San Diego. However, like in many areas of the country, while future retail sales are expected to continue to increase, inflationary adjusted dollars will show little growth in retail sales for San Diego, analysts say. So, this climate is expected to produce an especially competitive environment in the city as retailers jockey for improved market share.***

SAN DIEGO — San Diego County—ranked second in California's population behind Los Angeles—attracts residents, employers and retailers alike for its many natural attributes and prime Western locale.

Covering some 4,255 square miles and filled with slightly over 2 million people, San Diego County offers miles of beaches, natural and man-made bays, the nation's most popular zoo, and easy access to Mexico and nearby deserts.

These attractions helped to bring 30.4 million visitors to the area in 1986, which made tourism the third largest revenue producing industry in San Diego, according to the *San Diego Union/Tribune*'s Annual Review of San Diego Business, 1987.

However, leading the city's economy is manufacturing in aerospace, electronics, ship building, apparel, food, oceanics and biomedical equipment. Much of the valued $11 billion in manufacturing products produced in San Diego are directly related to federal defense spending contracts, according to the San Diego Chamber of Commerce.

Reliance on Defense Spending

This economic reliance on defense spending is furthered even more by the presence in the city of the largest naval complex in the free world and a major Marine Corps base. According to the city's commerce department, the total economic impact on the area totaled some $8.27 billion in 1986, making the military the third leading economic source.

While San Diego has diversified its economic base somewhat in recent years, the military/defense industry still exerts a great influence on the area, and the city could be hurt in the future if defense spending is cut significantly.

The government has already announced that some San Diego-based ships will be retired early and others moved, while local analysts expect defense contracts to start dropping by 1 percent to 2 percent a year.

Presently, the military employment position is holding relatively steady, but the fastest growing major employment categories have been construction, finance/real estate and services, according to a recent report by First Interstate Bank.

Although construction employment has grown, permits for new residential and non-residential buildings were actually down during 1987, with much of the decrease in housing units taking place in the multi-family sector.

Economists expect construction starts to decrease during the next two years as the city looks at greater growth control measures. According to the U.S. Bureau of Census, San Diego's population grew 18 percent between 1980 and 1986, placing the area as the nation's 19th largest city in the nation.

Unemployment rates for the area have fallen below the national and California averages for several years, as shown by the 1986 level of 5 percent in San Diego compared to 7 percent nationwide and 6.7 percent in California.

While a defense/military and construction drop are forecast and the unemployment rate is expected to go up slightly, San Diego is not without future positive economic elements.

Because of the devaluation of the U.S. dollar compared to the Japanese yen, many of the West Coast's Pacific Rim cities—including San Diego—have been provided with a boost in export activity, while incoming foreign investment is also providing an increase in economic growth.

Additionally, the possibility of hosting sailboat racing's America's Cup still exists, which could put the city in the national limelight and bolster tourism. San Diego has already received attention this year by hosting the Super Bowl.

Many of these tourism dollars fall directly into retailers' pockets, particularly with the existence of Horton Plaza in the city's rejuvenated downtown area. The downtown sector is expected to take on added importance when a convention center which is currently under construction opens.

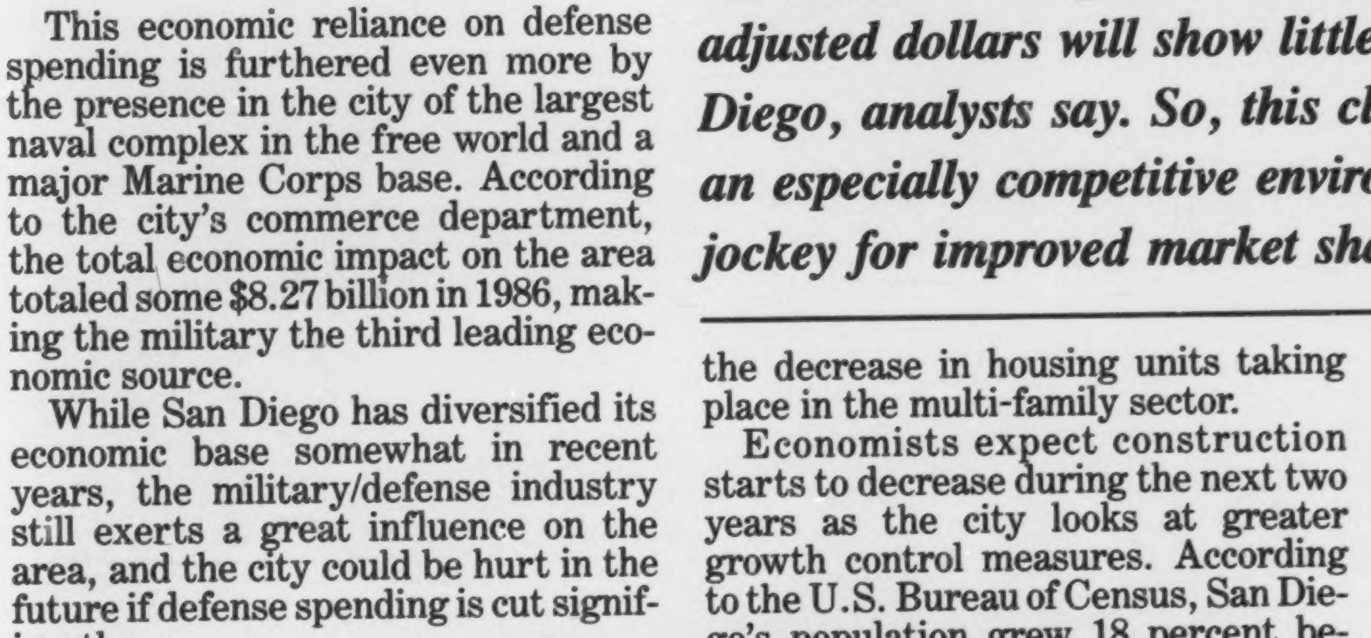
Together, tourists and San Diego County residents spent some $11.6 billion in 1986, up 7.3 percent from 1985, while total retail outlets between the two years grew by 6.4 percent, according to the *Union/Tribune* report.

The major retail outlets for these dollars are located in 10 large regional malls, 13 mid-size regional shopping centers, and 11 theme and specialty centers. Discounters in San Diego are primarily found in mid-size malls and numerous neighborhood strip centers.

While many of the city's shopping centers are spread throughout the area, much of the new retail growth is currently taking place in the north county, coinciding with the majority of new housing developments.

Spending at retail is based on an average disposable family income for the area of $26,674 as of 1986—a figure some area retail specialists said is somewhat low for Southern California but attributable to the heavy military personnel concentration.

So the general San Diego consumer "is looking for value" in his retail purchases, explained Nancy Johnston, managing partner with Epsteen & Associates, a commercial real estate firm in San Diego.



Consumers rated local Price Club as the leader for their most recent purchases of small electrical kitchen appliances, auto tires, bicycles and cameras. (DSN photo)

In search of value, San Diegans frequently take to area discounters. Both Target and K mart have 11 locations each, while Fedco has two, Pay Less five, and Pic 'N'Save six. Off-price apparel chains Marshalls, Ross and T.J. Maxx operate eight, four and three stores, respectively. Best Products is also present in addition to several smaller off-price chains and a few promotional electronics retailers.

Price Club Locations

Also in the market is Price Club with four locations. Although this number is less than half of what Target and K mart each offer, the membership warehouser is the leader in many general merchandise categories.

According to the Continuing Analysis of Shopping Habits study for San Diego by the *Union/Tribune*, Price Club was continually cited in the upper ranks by consumers who were asked where they made their most recent purchase for a given item.

For example, in many major appliance categories—such as microwave ovens, television sets and VCRs—Price Club ranked No. 1, with market shares ranging from 12.8 percent to 14.4 percent.

Similar findings showed Price Club as the leader in small electrical kitchen appliances, auto tires, bicycles and cameras. The membership warehouser also ranked high as a supplier of hand and power tools, domestics, car batteries and toys. In fact, in toys, Price Club's 13.2 percent share was exceeded only by Toys "R" Us.

However, K mart and Target did command a respectable showing in many of the categories, as did the former Gemco stores. Since some of Target's 11 stores are former Gemcos, presumably its market share will increase.

San Diego: Discount Store Count

Chain	Stores
K mart	11
Target	11
Pic 'N' Save	6
Pay Less NW	5
Price Club	4
Fedco	2
Total:	**39**

Source: DSN research

Another San Diego leader, particularly in many apparel categories, was highly promotional soft goods retailer Mervyn's. It was ranked No. 1 in many children's clothing categories and also rated the No. 1 spot in domestics.

The dominance by Price Club, discounters and promotional chains has given the industry a secure footing in San Diego. However, like in many areas of the country, while future retail sales are expected to continue to increase, inflationary adjusted dollars will show little growth in retail sales for San Diego, analysts said. So, this climate is expected to produce an especially competitive environment in the city as retailers jockey for improved market share.

Marketing

IMRA
ANNUAL CONVENTION
1988

Retailers Communicate to Differentiate

"We formulated a hypothesis about the general merchandise industry, which includes the discount stores; the large super drug stores, such as Pay Less; and the traditional Big Three of Sears, Penny and Ward. As a group, there is a sameness to what they offer. Merchandise is reasonably similar across all of the competitors.

"All of us, through one means or another, are attempting to persuade consumers that we are the value store . . . And all of us, in one way or another, are concentrating on serving customers better. To separate yourself from the pack, you must communicate much more effectively with your customer. That is our marketing communication's proposition."

—Joseph Antonini, chairman
K mart Corp., Troy, Mich.

Nationwide DSN Report

The expected sluggishness in the retail atmosphere over the next six to 18 months will challenge discount store marketing executives to develop new and sophisticated ways of differentiating their stores from the competition.

The nation's smartest marketers are leaving no stone unturned as they use myriad forms of media to communicate more effectively with their customer.

Print advertising continues to be the preferred form of communication for most general merchandise retailers. While newspapers have faced problems of declining readership and the rising cost of newsprint, most are making concerted efforts to be more responsive to their retail customers.

"The attitude of today's newspaper publishers is much more alert to advertisers' needs," said William Dean Singleton, president of MediaNews Group, publisher of several daily newspapers, to a gathering of discount store marketing executives at the International Mass Retail Association's Advertising Conference held earlier this year.

Cost Efficient Demographics

Citing the greater fragmentation of television viewership due to the proliferation of cable channels, Singleton claimed that in the 1990s, newspapers "will be the only medium that can offer a cost-efficient 60 percent of the marketplace, at the same time with better [more upscale] demographics."

Paul Hingham, vice president of advertising for Minneapolis-based Target Stores, refused to be drawn into a comparison between the effectiveness of newspaper and television advertising. "The biggest waste of time is to compare print to TV," said Hingham, who will serve as chairman of the IMRA Advertising Executives Council next year. "You can't measure them the same way. TV provides a unique sales proposition—movement, sound, color—while print is archival and appropriate for showing many items."

Hingham did note that the "level of receptiveness" of newspaper publishers to retailers' needs is "at an all-time high." Newspapers' decline in household penetration "has really bottomed out," said Hingham. "As baby boomers mature, they are picking up the habit of newspaper readership. Like it or not, newspapers are our best method of reaching our target customers."

Singleton of NewsMedia also noted that newspapers are stepping up efforts to convert retailers' inserts into run-of-press lineage. Promotional "blockbuster" programs which offer a large discount off the ROP rate for an eight-page or more ROP ad section are being developed by an increasing number of daily newspapers.

Circulars continue to offer retailers their best opportunity to showcase a wide range of products, but many discounters are reevaluating their use of circular programs.

K mart, for example, returned to a once-a-week circular program from a twice-a-week program, but dedicated itself to showing the best merchandise fully in stock throughout the entire seven-day life of the ad. While the frequency of the circulars has been cut in half, the size of the program in terms of pages of advertising will be about the same in 1988 compared to 1987. In addition, K mart is now breaking its ads on Sunday in metropolitan markets, while approximately 600 stores not serviced by a Sunday newspaper still break their ads at midweek.

"In the future, we are going to use more magazine advertising, more ROP advertising, more radio advertising, more outdoor advertising and especially, more television advertising," said chairman Joseph Antonini recently to a group of retail stock analysts.

As Hingham pointed out, television commercials provide retailers with a unique way of getting their message to their customers. Hills Department Stores, based in Canton, Mass., devotes 58 percent of its ad budget to broadcast media and close to 50 percent of ad expenditure to television, said Wes McDonough, vice president, advertising.

Hills' TV commercials tend to be institutional image spots—"sell-the-store type of advertising," said McDonough at the ad conference. Hills operates an in-house ad agency, called Compton Inc., to buy air time and produce its TV commercials. About 60 institutional and 100 vendor-paid spots are aired annually.

One way Hills breaks the commercial clutter is by utilizing its own employees as spokespeople in the commercials. Ray Brinkman, senior vp of operations, is "the single biggest star we created," said McDonough. Using inexperienced talent "adds to the credibility" of the spots.

Whether they use television, print, radio or billboard advertising, one problem all retailers face is understanding the characteristics and needs of their customers. Because of its size and spending power, the most intensely-courted and oft-analyzed customer group is the baby boomer generation.

According to "The Boomer Generation as Consumers, Implications for Marketing Strategy," a report conducted by Yankelovich Clancy Shulman for *People* magazine, the boomer generation is not one gigantic, homogenous market. The study reveals three distinct segments driven by three different sets of needs. "Marketers who provide information—that all segments seem to want—and stress quality, status and price have the best chance of being successful," said Robert L. Cohen, vp for the Westport, Conn., consulting firm.

The report identifies 26.9 million young adults as self-stylers, and suggests that advertising strategies to this group should focus on inherent quality, stressing product performance. These boomers tend to shop in fine department stores, specialty shops and upscale boutiques.

Another 23.6 million boomers are psychographically defined as materialists, motivated by prestige and status and willing to spend for the most prestigious "badge" they can afford. This does not necessarily mean the most expensive product, but rather the products that will be noticed and help them to exude a positive image and to create favorable impressions. Materialists are most likely to shop in chain department stores.

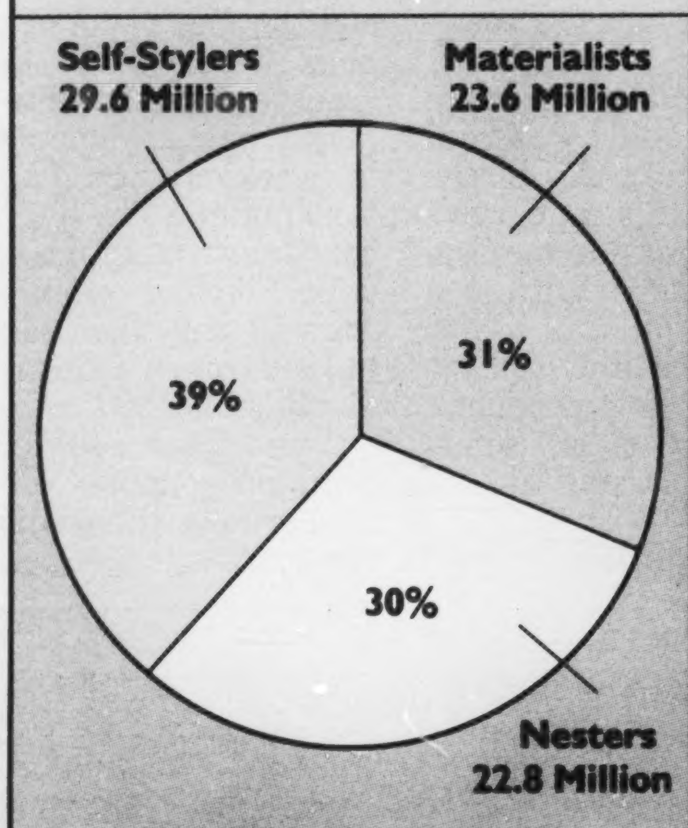
The 22.8 million nesters tend to be young, growing families. They appreciate products that are durable and practical. They are the most price-conscious of the boomers, and promotions have the greatest impact among this segment. They shop at outlets that promise lower prices: chain department stores and mass merchandisers.

Additionally, the Yankelovich survey found that all three segments exhibited a need for greater depth of information about the products they buy. Given that hypothesis, the study asks, "Is information gap-filling a key to successful loyalty building and new customer strategies?"

The survey notes that while brand names are not as important as they once were, the branding concept appears to be on the upswing. "For young adults in particular, we have seen its importance in this study."

The Baby Boomer Generation as Consumers

Three main psychographic segments drive consumption in the baby boomer generation.



76 Million Young Adults

Source: Yankelovich Clancy Schulman

- **Self-Stylers** are most likely to be internally driven, to be independent-minded and to believe there is no right or wrong way to live. They tend to set their own styles and are the segment most interested in travel and entertainment, tending to spend their money in ways to enrich their lives—travel, restaurants, theater, etc.

* * *

- **Materialists** place a great deal of emphasis on owning the right things, wearing the right clothes, driving the right cars, living in the right homes—whatever it takes to be in step with the crowd. Doing these right things is a source of personal satisfaction to them—an indication that they've made it.

* * *

- **Nesters** are not especially driven by a need to travel, to achieve personal fulfillment or money. Neither approval from others, physical exercise nor attractive homes drive their behavior. Nesters are family-oriented people content with the simple things in life, struggling to make do on a modest budget in an increasingly expensive world.

Breakdown of 76 Million Baby Boomers
Demographic/Lifestyle Profile

	Self-Stylers	Materialists	Nesters
Median Household Income	$31,000	$26,000	$27,000
Average Age	29	28	30
Age			
20-24	25%	33%	19%
25-29	27	25	27
30-34	24	22	28
35-39	24	19	26
Married	53	57	66
Children Living at Home	54	64	67
Dual Income Households	25	22	20
Female	50	54	49

Source: Yankelovich Clancy Schulman

Discounters Boost TV Expenditures

Nationwide DSN Report

Two specialty discount segments comprised the largest number of new additions to and deletions from the Television Bureau of Advertising's list of the top 25 discount chain television advertisers of 1987.

Three off-price apparel chains, with TV ad budget increases ranging from 41 percent to 82 percent, joined the top 25 ranking, replacing two consumer electronics chains and a hard goods, electronics and appliances specialist.

Overall, the top 25 discount store television advertisers spent 16 percent more on TV in 1987 than 1986. Continuing a trend from previous years, most of the $280 million spent by the leading advertisers was devoted to spot ads in the top 75 TV markets.

Culver City, Calif.-based C & R Clothiers increased its TV ad expenditures by 55 percent to become the sixth top TV discounter advertiser last year, spending $13.8 million in 1987 compared to $8.9 million in 1986.

Men's Wearhouse Spend 82% More

Houston, Texas-based The Men's Wearhouse became the 20th top discounter TV advertiser in the nation last year by spending 82 percent more than 1986. Another off-pricer, Richmond, Va.-based S & K Famous Brands, increased its TV budget by 41 percent, moving into the 21st slot behind The Men's Wearhouse.

Other off-price apparel chains also found a happy medium on TV. Framingham, Mass.-based T.J. Maxx increased its TV budget by 48 percent, and Newark, Calif.-based Ross Stores hiked its TV budget by 8 percent.

Burlington Coat dropped one notch to the seventh top discounter TV advertiser in 1987. The Burlington, N.J.-based retailer increased its television spending by 14 percent to $12.6 million from $11.0 million in 1986.

One off-pricer, Lynhurst, N.J.-based Sym's, fell off the list from its 22nd place ranking in 1986. Wakefield, Mass.-based Marshalls accounted for the largest percentage decrease in TV spending among the top TV advertisers. The giant apparel specialist slashed its TV advertising in half in 1987, spending 54 percent less, a mere $5 million investment from the $10.8 million it spent in 1986.

Consumer electronics chains absent from the 1987 list are Livonia, Mich.-based Fretter, which held the 13th rank in 1986, and Edison, N.J.-based Crazy Eddie, the 19th largest discounter TV advertiser in 1986. Woburn, Mass.-based Lechmere, a combination consumer electronics and hard goods specialist, slipped off the chart from the 25th spot in 1986. The financially troubled Federated Group, purchased by Atari last year, reduced its TV ad spending by 3 percent.

While some CE chains reined in their TV expenses, others became more aggressive in 1987. Minneapolis-based Best Buy, in an aggressive expansion effort last year, nearly doubled its TV ad budget, spending over $6 million. Circuit City, up 62 percent; Highland Superstores, up 20 percent; and Silo, up 11 percent, showed that electronics specialists still depend upon TV to get their message out.

Three off-price apparel chains, with TV ad budget increases ranging from 41 percent to 82 percent, joined the top 25 ranking, replacing two consumer electronics chains and a hard goods, electronics and appliances specialist.

For Circuit City, the nation's leader in consumer electronics retailing, television advertising has been such an important investment that it has maintained a hefty increase in its budget since 1985.

Between 1985 and 1986, Circuit City increased TV ad spending by 160 percent, snaring the fourth ranking on the top 25 list. Between 1986 and 1987, it increased TV spending by an additional 62 percent, moving up one notch to take over the third top slot. The Richmond Va.-based consumer electronics leader increased TV spending from $6.3 million in 1985 to $16.3 million in 1986 and to $26.4 million in 1987.

Circuit City's aggressive TV spending relegated Highland Superstores to the fourth ranking despite a 20 percent increase in TV spending by the Taylor, Mich.-based CE chain. Highland spent $22.6 million on TV ads in 1987, up from $18.8 million in 1986.

Among full-line discounters, the largest percentage increase in TV spending, albeit on a small base, was registered by Columbus, Ohio-based Value City, which spent 515 percent more than last year to take over the 25th position on the chart.

Despite flat spending, K mart and Wal-Mart upheld their rankings as the top two discounter TV advertisers.

Troy, Mich.-based K mart spent $40.6 million on TV advertising in 1987 compared to $40.5 million spent in 1986. In response to heavy competition from Wal-Mart in select markets, K mart shifted dollars spent on network TV in 1986 to increase spot TV advertising in 1987. K mart is one of only two companies on the list that spends an appreciable amount on network TV advertising.

K mart decreased network TV spending by 44.5 percent to $18.2 million in 1987 from $26.3 million spent in 1986. In contrast, it increased spot advertising by 58 percent to $22.3 million last year from $14.1 million in 1986.

Bentonville, Ark.-based Wal-Mart spent relatively the same on spot advertising, with a budget of $30.1 million in 1987 and $30.2 million in 1986.

Minneapolis-based Target remained the fifth top discounter TV advertiser in 1987, spending 25 percent more to $15.5 million from $12.4 million.

Framingham, Mass.-based Zayre moved up two notches to become the eighth top discounter television advertiser in 1987. The full-line discounter increased TV ad spending by 35 percent to $12.6 million in 1987 from $9.3 million in 1986.

Other full-line discounters that found TV advertising to their liking:

- Canton, Mass.-based Hills increased its TV budget by 12 percent to $11 million, from $9.8 million;
- Fred Meyer, the Portland, Ore.-based superstore operator, spent 36 percent more in 1987. Its television advertising expenditures rose to $6.2 million from $4.6 million in 1986;
- Grand Rapids, Mich.-based Meijer's advertising budget rose 41 percent in 1987, to nearly $4.0 million from the $2.8 million;
- Venture's budget also climbed to a new high, increasing 29 percent to $4.2 million from the $3.3 million the O'Fallon, Mo.-based retailer spent in 1986.

Venture's sister chain in the May Department Stores company, Norwalk, Conn.-based Caldor, reduced ad expenditures in 1987. The company had held the 15th position in 1986 with nearly $6 million in TV ad spending.

Best Products Drops Off List

Another dropout from the list was the Richmond, Va.-based catalog showroom chain, Best Products, which held the 24th spot in 1986.

Toys "R" Us, the specialty toy giant, dropped one notch to the ninth top discounter television advertiser in 1987. While the Rochelle Park, N.J.-based toy giant did not decrease its total TV advertising as much as the 26 percent decline between 1985-1986, it nevertheless decreased its budget by another 9 percent last year to $11.1 million from $12.2 million in 1986.

Unlike 1986 when the specialty toy retailer reduced both spot and network television advertising, it increased network advertising in 1987 while decreasing spot advertising.

TRU increased network spending by 43 percent to $3 million in 1987 from $2.1 million in 1986. In contrast, it decreased spot TV spending by 25 percent to $8.1 million in 1987 from $10.1 million in 1986.

Leading Discount Store Television Advertisers in 1987

	1986			1987			Percent Change
	Network TV	Spot TV	Total TV	Network TV	Spot TV	Total TV	
K mart	$26,332,900	$14,144,300*	$40,477,200	$18,238,300	$22,343,500*	$40,581,800	NC**
Wal-Mart		30,179,500	30,179,500		30,136,300	30,136,300	NC**
Circuit City		16,286,000	16,286,000		26,353,800	26,353,800	62%
Highland		18,830,200	18,830,200		22,566,800	22,566,800	20
Target		12,405,500	12,405,500		15,521,200	15,521,200	25
C&R Clothiers		8,917,400	8,917,400		13,798,200	13,798,200	55
Burlington Coat		11,047,800	11,047,800		12,621,900	12,621,900	14
Zayre		9,320,500	9,320,500		12,557,400	12,557,400	35
Toys "R" Us	2,056,800	10,123,200*	12,180,000	3,049,600	8,080,800*	11,130,400	(9)
Hills		9,819,600	9,819,600		10,998,900	10,998,900	12
T.J. Maxx		6,395,000	6,395,000		9,435,900	9,435,900	48
Silo		7,933,600	7,933,600		8,838,500	8,838,500	11
Federated Group		7,513,100	7,513,100		7,316,200	7,316,200	(3)
Best Buy		3,246,600	3,246,600		6,358,200	6,358,200	96
Fred Meyer		4,552,000	4,552,000		6,180,700	6,180,700	36
Ross Stores		5,316,200	5,316,200		5,717,400	5,717,400	8
Bradlees		4,852,600	4,852,600		5,291,900	5,291,900	9
Newmark & Lewis		4,776,400	4,776,400		5,059,700	5,059,700	6
Marshalls		10,750,200	10,750,200		4,950,300	4,950,300	(54)
The Men's Wearhouse		2,686,200	2,686,200		4,898,900	4,898,900	82
S & K Famous Brands		3,046,400	3,046,400		4,295,300	4,295,300	41
Venture		3,279,300	3,279,300		4,243,900	4,243,900	29
Meijer		2,822,800	2,822,800		3,988,800	3,988,800	41
Rose's		3,352,300	3,352,300		3,690,800	3,690,800	10
Value City		564,100	564,100		3,471,400	3,471,400	515
Total Top 25:	$28,389,700	$212,160,800	$240,550,500	$21,287,900	$258,716,700	$280,004,600	16

**Includes barter syndication advertising.*
Co-op advertising by these advertisers is not included. BAR credits this activity to the vendor.
***NC—no change*

Source: Television Bureau of Advertising from analysis of Broadcast Advertisers Reports data. Spot data is based on BAR monitoring in the top 75 markets.

Financial

IMRA
ANNUAL CONVENTION
1988

Industry Grows Amidst Consolidation

(Continued from page 98)

"I see no end to takeovers," said Daniel Barry, retail analyst for Kidder Peabody. "Most retail stocks are worth more as a leveraged buyout than as a public company. And there is a lot of LBO money," Barry said.

Fred Wintzer, retail analyst for Alex Brown & Co., Baltimore, also foresees further consolidation ahead. "Any chain that is floundering, such as Zayre, and has two down quarters in a row and whose stock is selling close to book value is a possible takeover or LBO candidate," Wintzer said.

Chains will operate fewer discount department stores, as they replace their less viable stores and push into warehouse clubs and hypermarkets, Loeb predicted, but their remaining stores will be larger.

As an indication of the trend toward larger stores, K mart is building stores of 85,000 square feet, an increase from 65,000 square feet or 75,000 square feet, Smith said.

"You have to be bigger to compete."

The 1990s will see "fewer and stronger players," operating larger stores, he predicted.

The whole industry is evolving toward larger stores, said Donald Trott, a retail analyst for Dean Witter. Wal-Mart, for instance, now is building 80,000-square-foot stores, against a previous standard of 57,000 square feet to 60,000 square feet, Trott said.

And Wal-Mart's new thrust is the SuperCenter format of about 120,000 square feet that combines an 80,000-square-foot Wal-Mart with a warehouse food center. Half of its new stores will be the SuperCenter size, Trott predicted.

William N. Smith, vice president and retail analyst for Smith Barney, predicted that 1988 will be a "tough year on pricing," accompanied by "continued pressures to reduce costs."

Warehouse clubs provide that pressure from below, Smith said, and service-oriented department stores from above.

Chains such as Venture "have got their work cut out for them to improve their execution" to counter the competition of Wal-Mart and, increasingly, K mart, Smith said.

K mart continues to improve its systems, Smith said, and will complete the installation of its new POS system in about two years.

"It's hard to see" where Target can reduce costs, Smith said, except that it probably would be through more efficient distribution.

"Everyone is pretty spooked about the economy" since the stock market crash, said Barry. Retailers are keeping tight control on inventories, and Dayton Hudson is cutting capital outlays for its Target and Mervyn's chains, he said.

Kidder Peabody's economist is predicting a mild recession by mid-1989 to last about two quarters, Barry said.

To keep sales from declining as consumers continue to slow their spending over the next two years, retailers will have to slash prices even more, Barry predicted.

Other factors that prompt Barry to take a negative view of retail issues are rising inflation, the increasingly competitive nature of the industry, and poor earnings performance, in comparison to non-retail companies.

The most dramatic trend in discounting is the warehouse format, said Linda Kristiansen, a Dean Witter retail analyst and vice president. "It's the next wave of discounting, and has reached the rollout stage."

Even Ames, the Rocky Hill, Conn.-based regional chain, is venturing into the specialty warehouse field with its Office Shop Warehouse. With 15,000-square-foot stores, Ames could put those units almost anywhere, she said.

> *'I see a period of acquisition ahead, the trend is survival of the fittest.'*
>
> —Walter Leob,
> senior retail analyst,
> Morgan Stanley

Other examples of this wave of new specialty warehouse discounters: the Office Square and Sports Giant specialty warehouse clubs that K mart is developing, Price-Rite's health and beauty aids warehouse, the Sports Authority sporting goods warehouse and a number of other office supply stores such as Staples and Office Depot.

Just as Sam's Wholesale Club acquired the Super Saver warehouse chain last year, the Big Three warehouse clubs, Sam's, Price Club and Costco, can be expected to acquire other second-tier clubs, such as PACE, she said, or troubled clubs, such as the Warehouse Club and American Wholesale.

Discount department stores, as a mature industry, will continue to lose market share, both to warehouse clubs and specialty discounters, predicted Fred Wintzer, retail analyst for Alex Brown & Co., Baltimore.

Specialty retailers that operate "supermarkets," such as Circuit City and Toys "R" Us are hurting full-line discount stores, Wintzer said, by capturing market share.

That's why K mart is getting into sporting goods and office supply specialty warehouses, Wintzer said. "If they didn't take chunks of the market, someone else would. This way they 'keep it in the family.' "

Off-price apparel specialty chains will continue to thrive, Smith predicted, with their formula of offering branded clothing at a better price. "Consumers still find it exciting to discover good brands at a great price."

In contrast to warehouse clubs, hypermarkets remain in the experimental stage, said Kristiansen, Dean Witter. "It's still wait and see."

Nonetheless, Trott, her fellow analyst at Dean Witter, sees a future for hypermarkets in capturing the market niche for individual consumers while warehouse clubs concentrate on business customers.

Hypermarkets will prove themselves within 18 months, Trott said. Chains with superior execution skills will produce viable hypermarkets that will be as "revolutionary as were discount department stores" in their heyday, he predicted.

And Loeb of Morgan Stanley said that hypermarkets, as destination stores, will be among the expected winners in the 1990s.

Smaller chains will find it increas-

(Continued on page 186)

Store Size, Count, Not Governing Factors in SKU Turn Rates

Discount Store Inventory Stock Turn Survey

	Inventory Turns				
	Merch. Groups		Stores		
Sales Volume of Surveyed Stores	Soft Lines	Hard Lines	Comparable	All	Total
Greater Than $1 Billion	3.50	3.02	3.74	3.77	3.46
$500-$999 Million	3.43	3.24	3.38	3.35	3.52
$200-$499 Million	3.43	3.39	3.42	3.42	3.06
All Stores Average	3.47	3.18	3.54	3.55	3.37
All Stores Median	3.20	2.95	3.25	3.34	2.90

Source: Coopers & Lybrand

NEW YORK — Inventory stock turned a median 2.9 times last year among 15 of the nation's top discounters, slightly below the 1982 level of 3.0, according to a survey released last month by Coopers & Lybrand, an accounting, tax and management consulting firm based here.

Among the survey respondents, inventory turns ranged from 2.4 to 4.96, a dramatic difference.

"How come someone does it [turn inventory] twice as good as somebody else?" asked Robert M. Zimmerman, partner and chairman of Coopers & Lybrand's retail industry practice.

The data does not provide a clear answer. Company size appears to have little to do with inventory turns.

Mid-size discounters with annual sales of between $500 million and $999 million turned their inventory at a faster rate than either large or small discounters. The turn rate for these discounters averaged 3.52 times a year, compared to 3.46 for companies with annual sales of over $1 billion, and 3.06 times for companies with sales from $200 million to $499 million.

Number of stores also is not a factor. Discounters with more than 200 stores turned merchandise at a rate of 3.38 times a year; they were followed by operators with between 50 and 99 stores, totaling 3.27 turns; and by retailers with 100 to 199 stores, 3.13 turns.

Within certain categories of merchandise, turn rates fluctuated even more dramatically, from a high of 5.2 for soft goods merchandise by one discounter in the $200 million to $499 million category, to a low of 2.5 turns for a $1 billion-plus company.

"The report shows that smart management exists wherever it exists," said Zimmerman.

The report, entitled, "Discount Store Inventory Stock Turn Survey" sought information on inventory turns from 25 of the nation's top discounters. Fifteen responded. Of those 15 discounters, seven reported annual sales exceeding $1 billion, four had sales in the $500 million to $999 million range, and four posted sales in the $200 million to $499 million category.

Discounters reported turn rates for soft goods and hard goods, by comparable units open one year or more, for all stores, their warehouse operation, and total company turns.

Retailers were promised anonymity for their responses.

Although the study was last done five years ago, Zimmerman said the survey will become an annual report.

Zimmerman found the wide spread in inventory turns among discounters quite surprising. He reasoned that since retailers are selling the same merchandise at the same gross margin and under relatively the same conditions, the difference boils down to "merchandise productivity," a product of controlling costs and effective sku management, key variables in the distribution system.

"Retailers need to look at this variable at POS, scanning, getting the merchandise through the pipeline faster with higher service with lower inventory costs," he said.

Zimmerman predicts that in the next two to three years, a few discounters will push their inventory turn rates to 6 or 7, and discounters with inventory turns under 3 will "drop out."

The survey has already shown that discounters can achieve 5 turns a year. Two of them have already done it in two different categories: soft lines and comp store turns.

The warehouse club concept of higher turns and lower margins will filter into discount stores, he said.

Warehouse clubs usually report 15 turns a year with gross margins at about 10 percent.

"Discounters are going to

(Continued on page 186)

Despite Consolidation, Discount Industry Continues to Expand

(Continued from page 185) ingly difficult to compete against the Big Three—K mart, Wal-Mart and Target, Trott predicted.

Wal-Mart stands "head and shoulders" above the pack in execution and value delivered, he said. "K mart has improved in the past two years," he added, and "Target is no slouch, either."

The Big Three continue to open new stores, said Smith of Smith Barney, which will offset the weaker chains as they close stores or merge into stronger chains. Wal-Mart will add about 100 stores this year, Smith said, and K mart will open at least 50 in 1988, compared to about 25 last year, he said. And, Target is expanding on top of its 50 Gemco conversions last year.

Wal-Mart will continue to push its operational boundaries outward, Trott predicted, but will require 15 to 20 years more to become a national chain.

In its expansion drive, Wal-Mart is putting enormous pressures on regional chains, including Family Dollar, he said. Wal-Mart has attacked Family Dollar's small-town marketing approach by offering superior merchandise at cheaper prices, Trott said.

Zayre is among the regional chains that face enormous challenges in the years ahead, Trott said.

"It will take a minimum of three years—if ever—for the Zayre division to turn around," Trott predicted.

Systems are "archaic and distribution centers lack appropriate capacity," Trott said. Zayre faces a "critical stage" in its life, Trott said.

Jamesway is a regional chain that bought some time by making improvements over the past two years, Trott said. Yet, the Secaucus, N.J., chain remains "eight to 10 years behind the industry leaders" in developing retail automation systems that promote greater efficiency, he said.

The market is treating regional discounters as holding below-average potential because all are experiencing gross margin pressures, said Kenneth Gassman, who specializes in regional chains as an analyst for Wheat First Securities, Richmond, Va. Their stocks are "dead in the water," Gassman remarked.

In addition to pressures from the national chains and warehouse clubs, the coming of the hypermarket is putting new pressure on regionals, he said. S.E. Nichols, New York, and Rose's Stores, Henderson, N.C., both had down years in 1987 and Heck's, Nitro, W.Va., is in Chapter 11 bankruptcy.

Jamesway, Ames and Rose's all are vying to be the dominant chain in their region. Jamesway is struggling to maintain market share and growth. And Rose's is battered on all sides by the majors. "Despite good management, Rose's just can't seem to generate momentum to get ahead," said Gassman.

The central issue for regional chains is to "identify their niche in the marketplace and create an image among consumers about what that niche is," he said.

Wal-Mart has made its niche clear: low prices, Gassman said, but the niche for many regional chains is fuzzy. "They can't be everything to everybody."

If the economy turns down, regional chains would be under more pressure than ever because the nationals operate from deeper pockets, Gassman remarked.

Regional discounters might have to take the specialty retailing route, such as Montgomery Ward did with its "focus" stores, Gassman suggested.

Despite the generally dim view that Wall Street takes toward retailing issues, analysts still toss out a few names for consideration.

For the investor willing to assume "above average risk," Gassman suggests two niche discounters, Service Merchandise and Best Products, as turnaround candidates.

Service Merchandise, Nashville, Tenn., is repositioning its financial structure, although not its merchandise, Gassman said. Best Products, Richmond, is repositioning its product line to such an extent that Gassman now terms it a "jewelry and giftware retailer," rather than a catalog showroom chain.

In seeking its niche, Best has slashed sku's to 11,000 from 16,000, Gassman said, reduced its number of catalogs to 2 million from 6 million and put more goods on shelves to cut back room labor costs.

Barry, Kidder Peabody, favors another turnaround situation, Consolidated Stores, a closeout chain, and Toys "R" Us for its predictable growth.

Morgan Stanley's Leob recommends Wal-Mart, virtually every major analyst's favorite retail issue, and Toys "R" Us.

Along with destination stores, such as hypermarkets, chains such as Toys "R" Us that create markets will also be winners in the 1990s, he predicted.

The "me, too" stores won't be standing in the winner's circle, he said.

Store Size, Count, Not Governing Factors in Turns

(Continued from page 185) have to [raise turn rates] by being more efficient, buying what customers want, and shortening the pipelines from manufacturer to stores," Zimmerman observed, adding, "You have to be clever."

Apparently some discounters are quite clever.

One discounter in the $200 million to $499 million category, with fewer than 100 stores, posted a turn rate of 5.2 in soft lines merchandise, higher than any other merchant in the study. This same company recorded 3.92 turns in hard lines, second only to one mid-size discounter, also with fewer than 100 stores, that posted 4.62 turns in hard lines.

According to the survey, soft goods merchandise turned a median 3.2 times for all the stores and 2.95 for hard goods. Comp store turns were a median 3.25, and all stores turned their merchandise a median 3.34 times a year.

Large companies averaged 3.5 turns in soft goods and 3.02 in hard goods, 3.74 in comparable stores, and 3.77 for all stores. The company average for discounters in the $1 billion-plus category was 3.46.

Mid-size companies reported soft goods merchandise turned an average of 3.43 times, and hard goods, 3.24 times a year. Comp store turns were an average 3.38, and all stores, 3.35. Total company turns for companies with sales of $500 million to $999 million was 3.52.

Small firms reported soft goods turns at 3.43 and hard goods at 3.39. Both comp store turns and all stores turned an average of 3.42 times a year. The total company turn rate in this category was 3.06.

Several companies did not fully report their turn rates by category, only by total company. The discounter ranked No. 1 for turns—with sales exceeding $1 billion—reported a rate of 4.96.

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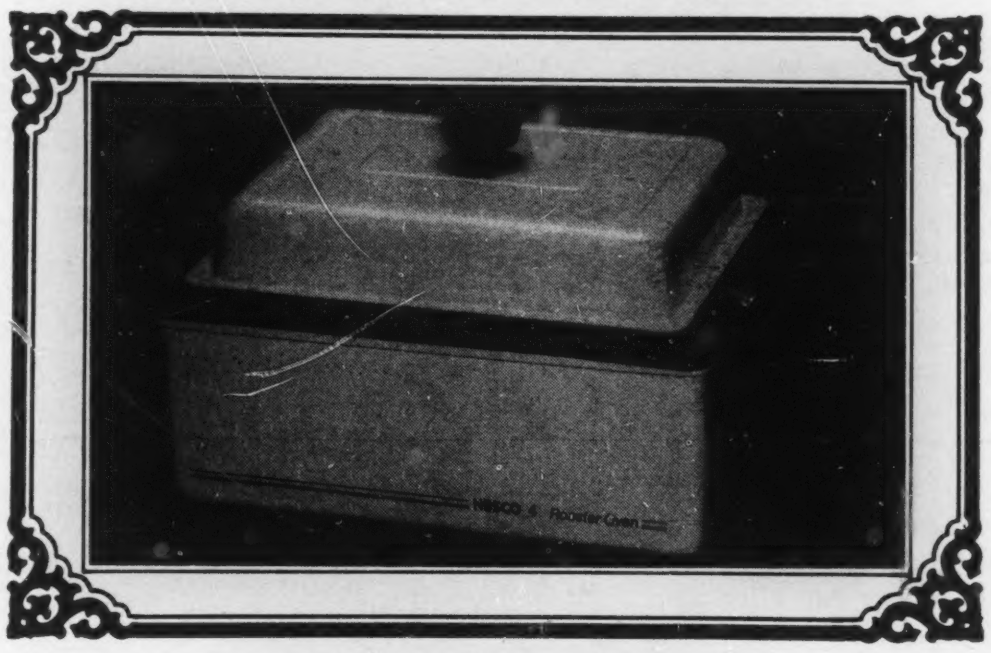

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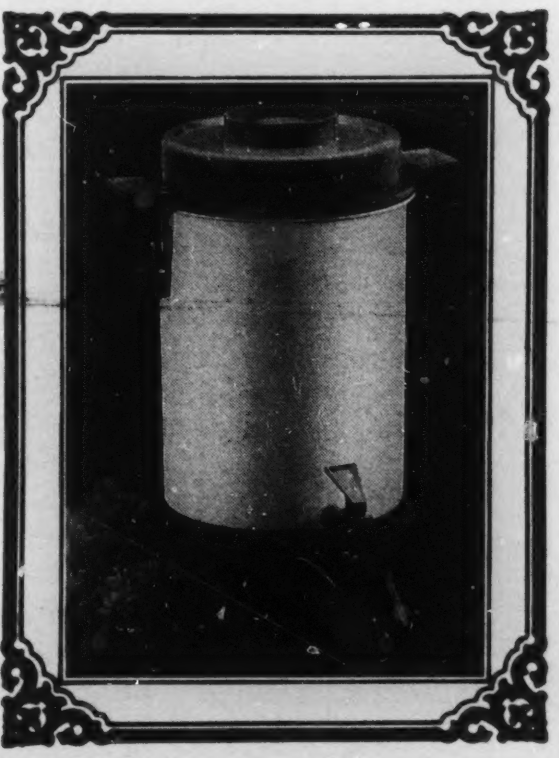

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Price Verdict Threatens Future of Discounting

(Continued from page 5)

price maintenance may no longer be treated as per se or automatically illegal—a position argued by administration officials at both the Justice Department and the Federal Trade Commission.

Instead, the court effectively changed the definition of RPM to exclude conspiracies which stop short of establishing specific price levels.

Under the standard laid down in *BEC vs. Sharp*, it is automatically illegal for a vendor to strike an agreement with one or more retailers to prohibit the sale of a product below a "suggested" list price. But it is not automatically illegal to conspire to terminate retailers whose low prices offend competing retailers.

That curious ruling stemmed from a relatively straightforward, 15-year-old dispute between two authorized distributors of Sharp electronic calculators in Houston, Texas. One dealer, BEC, sold the vendor's products at below "list" prices. The other, Hartwell, repeatedly complained to Sharp about BEC's discounting.

In June of 1973 Hartwell threatened to stop selling Sharp's products altogether unless transactions with BEC were terminated within 30 days. The vendor responded to that ultimatum by cutting off sales to BEC in July.

The discounter filed suit in federal court and was awarded $1.8 million in treble damages due to the conspiracy.

The appeals court for the 5th Federal Circuit reversed that verdict, however, ruling that in order for the conspiracy between Sharp and Hartwell to be per se illegal, Hartwell "must expressly or impliedly agree to set its prices at some level, though not at a specific one." The agreement is not automatically unlawful, the court added, unless the retail conspirator "cannot retain complete freedom to set whatever price it chooses."

In upholding that decision, the U.S. Supreme Court held that the termination of a discounter under the conditions present in the *BEC vs. Sharp* case is not "conduct that is manifestly anti-competitive."

"There has been no showing here that an agreement between a manufacturer and a dealer to terminate a 'price cutter,' without further agreement on the price or price levels to be charged by the remaining dealer, almost always tends to restrict competition and reduce output," Justice Scalia wrote on behalf of the court's majority.

A ruling against the manufacturer in this case, he reasoned, would make it too easy for discounters to win groundless treble damage RPM suits against innocent suppliers.

"Any agreement between a manufacturer and a dealer to terminate another dealer who happens to have charged lower prices can be alleged to have been directed against the terminated dealer's 'price cutting,' " Scalia maintained. "In the vast majority of cases, it will be extremely difficult for the manufacturer to convince a jury that its motivation was to ensure adequate services, since price cutting and some measure of service cutting usually go hand in hand."

Even manufacturer trade restraints "that do not result in dealer termination, such as the initial granting of an exclusive territory or the requirement that certain services be provided, can be attacked as designed to allow existing dealers to charge higher prices," Scalia lectured. "Manufacturers would be likely to forego legitimate and competitively useful conduct rather than risk treble damages and perhaps even criminal penalties."

Ironically, Scalia's opinion was peppered with references to "Chicago School" jurist Robert Bork—one of President Reagan's unsuccessful 1987 Supreme Court nominees, and a leading advocate of allowing vendors to dictate the prices paid by consumers.

The decision against BEC drew a strongly worded dissent from Justices John Paul Stevens and Byron White, who described the agreement to terminate sales to the discounter as a "naked restraint" of trade.

"When a manufacturer responds to coercion from a dealer, instead of making an independent decision to enforce a predetermined distribution policy, the anti-competitive character of the response is evident," the dissenters maintained.

Calling the agreement that led to the termination of BEC "inherently suspect," they warned that the court majority's opinion will "only breed uncertainty in the law and more confusion for the businessman."

"The sole purpose of the agreement" to terminate the discounter in this case "was to eliminate price competition," and therefore the conspiracy should be considered per se illegal, they maintained.

The Supreme Court's *Sharp* ruling underscores the importance to the discount industry of securing federal legislation governing resale price maintenance conspiracies. The House has already passed a bill giving statutory weight to the per se ban on RPM, and a similar measure sponsored by Sen. Howard Metzenbaum, D-Ohio, is pending in the upper chamber.

Also, that measure would clarify the standards of evidence in RPM cases to make it easier to prove a conspiracy.

The Price Club Petitions Senate

SAN DIEGO — The Price Club has included a preprinted petition in the April issue of the *Price Club Journal* supporting a proposed Senate bill to guarantee a court hearing in price fixing cases.

In a note on the petition, Price Club chairman Sol Price explained that the measures "provide that terminating a dealer in response to a rival dealer's complaint is sufficient to infer illegal resale price maintenance. They are designed to make it a little tougher for manufacturers to evade the Sherman Antitrust Law by keeping merchandise out of the hands of people like us [warehouse clubs]."

The petition itself states: "I support 'The Retail Competition Enforcement Act' (S 430) which would guarantee fair pricing by allowing a dealer whose supply is cut off by a manufacturer in response to a price complaint from another dealer to have a fair hearing in court. I believe this bill protects consumers by guaranteeing full-price competition at the lowest possible prices."

The *Journal*, which has a controlled circulation of 800,000, goes to Price Club business members. Individual (group) members can subscribe for $5 a year.

Discounters Divided

(Continued from page 5)

tive role in the antitrust controversy, lobbying for the Senate bill sponsored by Howard Metzenbaum, D-Ohio, that would make it easier to get a case of suspected price fixing before a jury.

"The days of Fair Trade are coming again," said Bob Stevenson, K mart's vice president for public affairs.

The decision's "long-term implications for the industry are bad," he said.

The Reagan administration isn't enforcing price-fixing law, anyway, he said, and "this decision makes it more difficult to enforce the law."

"It should be up to the distributor to decide what the ultimate price to the consumer should be."

K mart is working to get the Metzenbaum bill passed, Stevenson said.

Differing versions of the bill have passed the Senate and the House, and a final compromise bill undoubtedly will be amended to counteract the Supreme Court decision, predicted Malcolm Hoffman, a New York antitrust lawyer.

An opposite view of the decision comes from Sol Price, chairman of the Price Club.

"Ultimately, any industry that gets protected gets weakened," said the warehouse club founder. "I see no real threat in the long run from the the decision."

Since 1958, "I've gone through all the trade wars," Price said, "and I'll survive this one, too."

Over the years, the position of conventional retailers has weakened considerably. With the competition, "it would be difficult to maintain prices in today's market," he said.

Bradlees said in a statement that the decision might affect smaller discounters. But "it will have no effect on larger discounters, such as Bradlees, because we are promoting and servicing major brands, as are most of the higher-priced competition."

As justification for curbing supplies to discounters, some manufacturers argue that full-price retailers help the brand by providing more service.

A Best Products spokeswoman, Brenda Morgan, said the catalog showroom operator "doesn't expect any adverse ramifications" from the decision.

Best Products accounts for a significant part of the annual revenues of many vendors, so "we don't expect any cut offs," Morgan said.

Any move to cut off discounters will boomerang on vendors, predicted Gee Bee chairman, Alvin Glosser.

"Manufacturers are geared up to produce X number of units," Glosser said. "If they start putting on restrictions, goods will back up in their factories," he said.

Vendors who restrict goods will experience marginal growth in sales and profits, he said. "The discount industry already has shown it can move tonnage.

"I don't think it [the *Sharp* decision] will hurt in the long term," Glosser said.

General Electric had its Fair Trade price 30 years ago, Glosser said. "Everybody had his way to get around GE's restrictions."

Sharp "won the battle, but it lost the war," Glosser said.

"The decision is a lawyer's dream," said Jack Luskin, chairman of the Luskin's consumer electronic chain. "It's Son of Fair Trade.

"We're taking it one day at a time," Luskin said. "I've never been threatened with a cut-off," he said, "and I don't foresee any harmful effects." But, "you never know," he added.

The decision "leaves manufacturers open to intimidation and coercion by big conglomerates which can cut down the amount of brands carried by other retailers," warned Monroe Milstein, chairman of Burlington Coat Factory, in a published report.

"Brand names [are] not just in clothing. It's all across the board," Milstein said. "The biggest conglomerates will dominate the market and force the others out.

"If they take away the brand names, they literally take away our customers."

K mart Recruits K marters of the Future

(Continued from page 5)

tics team, he noted, needed more than money to support its efforts.

The immediate goal of the K mart Gym Kids Club program, which will be handled internally at K mart, is to instill good health, fitness and nutrition habits in children and to provide positive publicity for the U.S. Gymnastics Federation.

The long-term goal of this program, and others that will surely follow, "is to get more out of our advertising and public relations so the customer becomes more comfortable about shopping K mart," explained Wellman.

Both the sponsorship of the gymnastics team and the kick-off of Gym Kids Club was announced at a press conference at K mart's Troy, Mich., headquarters on May 10.

The size of K mart's contribution to the U.S. Gymnastics Federation was not disclosed, nor was the estimated cost to the retailer of operating the Gym Kids Club.

K mart chose to sponsor gymnastics because the sport both appeals to and is available to young children, who are part of K mart's target audience, explained Barbara Palazzolo, director of marketing and product publicity.

Sponsorship of the gymnastics team also represents an expansion of K mart's corporate giving program.

The Gym Kids Club was introduced to K mart shoppers on Sunday, May 15, via in-store signage. In addition to registering children in stores, K mart will send Gym Kids Club information to a book club list from Waldenbooks—a K mart subsidiary—containing names of about 2 million children, and to the 50,000 members of the Gymnastics Federation, said Wellman.

This fall, select merchandise such as gym bags, backpacks and some children's apparel items will feature Gym Kids Club hang tags.

All children in the target age group are eligible for a free membership, entitling them to receive the four-page, four-color newsletter six times a year, a K mart Gym Kids Club logo patch, a membership card and a U.S. Olympic Gymnastics team poster.

The newsletter will also be available in K mart stores.

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IMRA session on 'Challenges Facing Retailers' featured executives representing chains totaling more than $70 billion in retail sales (from left): Bruce Allbright, president of Dayton Hudson; Michael Bozic, chairman of Sears Merchandise Group; David Glass, president of Wal-Mart; Stephen Goldberger, chairman of Hills; and Peter Hayes, new president of Child World. (DSN photo)

IMRA '88: Politics, Trends, Competition

By Donald Longo

NASHVILLE, Tenn. — At an annual convention shaded by numerous political issues and overtones, the nation's leading discount retailers and their suppliers met here late last month to renew relationships, discuss trends and uncover new and better ways of conducting their businesses.

Despite the absence of some major chains at this year's International Mass Retail Association event, most of the industry's big names were well represented, including Wal-Mart, Target, Ames, Hills, Bradlees, Jamesway and many others. In public sessions and on the exhibit room floor, these leaders of the mass merchandising industry:

- Noted that overall business has been fairly good, but bemoaned the lack of direction in apparel that has resulted in very sluggish soft lines sales;
- Expressed their concern over and disagreement with the recent Supreme Court decision that makes it easier for a full-price retailer to exert pressure on suppliers to cut off sales to discount retailers who sell the same product at substantially lower prices;
- Participated in a computerized opinion survey that revealed half (49 percent) of the show's attendees favored

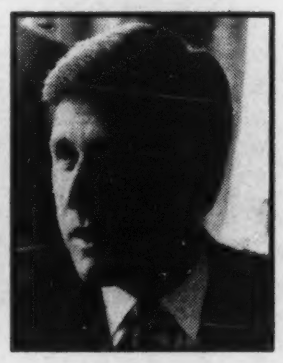
(Continued on page 49)

Key Gold Circle Execs Resign As Management Pursues LBO

By Mary Ellen Kelly

Glass

Hayes



Fishman

WORTHINGTON, Ohio — A number of key Gold Circle employees have left the chain despite efforts by the discounter's management to save the 21-year-old chain through a proposed leveraged buyout.

At presstime, an LBO, led by company president Robert Glass and reportedly other unidentified members of man agement, was still being pursued following the resignation last month of chairman Peter Hayes, senior vice president, general merchandise manager Steve Fishman, and a number of other merchandisers.

Glass told *DSN* that an announcement on the LBO could be made early this month.

The proposed LBO was triggered by the acquisition of Gold Circle's parent, Federated Department Stores, by Toronto-based Campeau Corp. Campeau said it plans to jettison the 76-unit Gold Circle discount chain to help pay off some of the debt incurred in the acquisition. Other Federated specialty divisions are also for sale.

Investment banking firm First Boston is leading the search for financial backers for the Gold Circle management team. If the LBO falls through, likely buyers of groups of Gold Circle stores include Target, Hills and Wal-

(Continued on page 53)

Zayre Lays Off 60; Eyes $10M Savings

FRAMINGHAM, Mass. — Zayre Corp. has laid off 60 regional and headquarters employees from its money-losing discount store arm, and eliminated 190 unfilled positions. Store closings are also expected, sources told *DSN*.

Zayre hopes to save $10 million a year.

The layoffs included three vice presidents and "a few buyers," said Jerry Donini, senior vp, human resources.

K mart to Pair Square, Fare in Charlotte, N.C.

By Richard C. Halverson

CHARLOTTE, N.C.— On a rolling 34-acre site, K mart is planning to give new meaning to the one-stop-shopping concept by offering consumers the opportunity to buy their clothes, food, general merchandise—and home improvement materials at the same complex.

K mart is going to pair its second American Fare hypermarket with a new Builders Square home improvement center here, *DSN* has learned.

K mart often has paired a Builders Square with a discount store, and Wal-Mart has built several Sam's Wholesale Clubs next to its Discount City

(Continued on page 46)

IKEA Suit Forces STOR to Shelve Catalog

Home Furnishings Retailer Claims Copyright Infringement

By Pamela Krein

LOS ANGELES — Pressured by a IKEA copyright infringement lawsuit, STOR, a competing home furnishings retailer, has halted display and distribution of its 1988 "copy cat" catalog.

The decision by STOR ends the first dispute in the lawsuit filed by Swedish-based IKEA. The lawsuit charges that STOR "copied in virtually every respect material from IKEA stores."

IKEA—with stores in 19 countries including two sites in the U.S.—contends that STOR replicated IKEA's furniture, furniture names, signs, testing machines, price tags, department names, color schemes, checkout areas, shopping carts, general store layout and design, and catalogs, and that this replication constitutes unfair competition and copyright infringement.

In the lawsuit, IKEA is ask-

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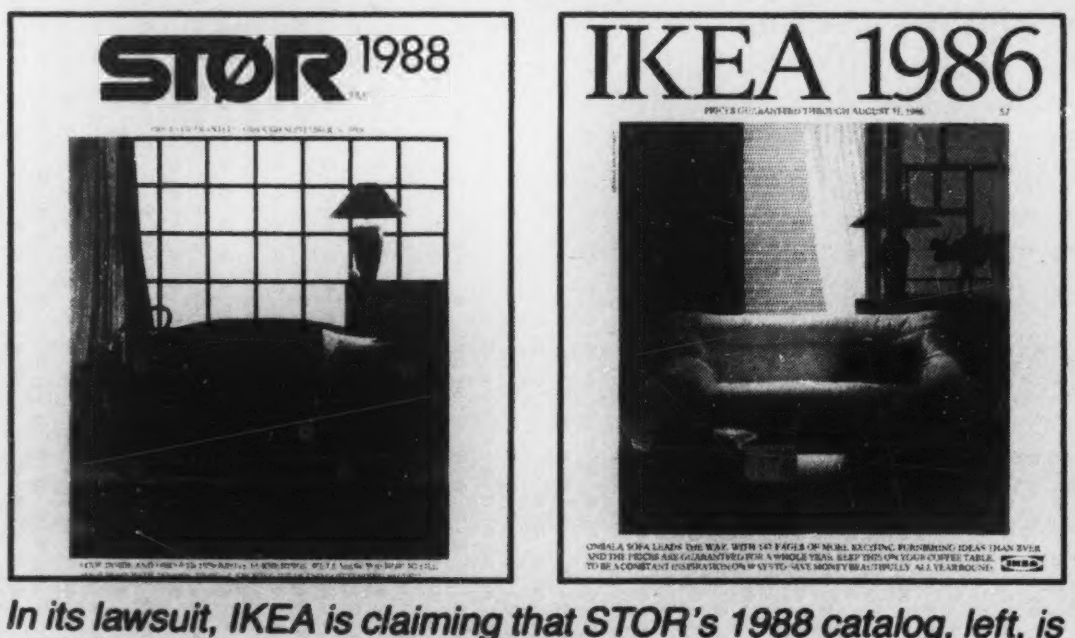

In its lawsuit, IKEA is claiming that STOR's 1988 catalog, left, is an infringement on the copyright of IKEA's 1986 catalog, right.

L.A., Philadelphia Added As Main Street Test Areas

By Arthur Markowitz

LOS ANGELES — GTE will expand the test marketing of Main Street, its interactive cable TV shopping service—now being tested in Boston—to Philadelpia and the Los Angeles suburb of Cerritos later this year.

In Cerritos, GTE will build and maintain a cable TV network infrastructure that will allow the largest and most advanced test of voice, video and data services, including home shopping, to consumers and businesses. The network will use traditional coaxial cables, with state-of-the-art fiber optics be to added later.

The actual 36 channels of cable TV programming in Cerritos will be provided by Apollo CableVision, with GTE and other vendors offering such other services as home shopping and banking, entertainment information, and

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MAIN STREET

Men's Wear Gets New Look at Ames

Federated's HomeWorks Experiment Flops

Fragrances Freshen Up

CE Chain Census

MARKETWATCH

Harts to Open Two Hypermarket Stores

NASHVILLE, Tenn. — David Godfrey, vice president and general manager of Columbus, Ohio-based Hart Stores, said at the IMRA convention here that Hart and its parent, supermarket operator Big Bear, will open two hypermarket-type stores in Ohio markets this month. Debuting on June 15 will be a 140,000-square-foot Big Bear Plus in Wintersville, Ohio, near Steubenville. A 100,000-square-foot Big Bear Plus will open the same day in Bridgeport, Ohio, across the border from Wheeling, W.Va. Both stores will devote 60 percent of their product mix to general merchandise and 40 percent to food. They will have a central checkout area for food and non-food merchandise and will resemble a Wal-Mart SuperCenter in layout and look, said Godfrey. Another Big Bear Plus is expected to open this fall in Wapakoneta, Ohio, in a 75,000-square-foot former Cook United building.

QVC Reports 1st Qtr. 241.3% Sales Rise

WEST CHESTER, Pa. — QVC's sales jumped 241.3 percent to $38.1 million from $11.2 million in the quarter ended April 30, putting the teleshopper "on target toward the upper end of our projected $170 million to $200 million sales goal for the year," said chairman Joseph M. Segel. The big sales jump produced a $1 million net profit, compared to a $6.3 million loss in the same period last year. The turnaround means that "we are now beginning to reap the benefits of the cost efficiencies of our satellite-cable TV transmission system," he said.

Pic 'N' Save Operating Income Falls 8%

CARSON, Calif. — Pic 'N' Save, a 126-store closeout chain, reported an 8 percent decline in operating income on an 18.5 percent sales gain during its first quarter of 1988. Operating income dipped to $11.1 million during the quarter ended April 3 from $12.1 million in the year earlier period. Sales, on the other hand, rose to $73.9 million from $62.5 million. Thanks to lower income tax rates, net after-tax earnings for its first quarter remained stable at $7.05 million, the company reported. Pic 'N' operates primarily in the Southwest but entered a new market, Louisiana, by opening one store last month in Shreveport. To support its eastward expansion, the company plans to build a new distribution center in New Orleans.

Caldor, Venture Record Flat 1st Qtr. Sales

ST. LOUIS — Sales for Caldor and Venture came in essentially flat during their first quarter and actually fell 3.3 percent on a same store basis. On a consolidated basis, their sales rose just 0.4 percent in the quarter ended April 30 to $546 million from $544 million in the year-ago period, reported their parent, May Department Stores. On its quarterly statements, May declines to separate Caldor and Venture sales or report operating income for its discount store division. Including department and specialty stores, combined sales for May totaled $2.26 billion for the quarter, a 2.6 percent gain from $2.2 billion a year ago. Net earnings for May's first quarter dipped 3 percent to $62 million from $64 million last year.

Moody's Downgrades S.E. Nichols Debt

NEW YORK — Moody's Investors Service has downgraded the debt rating of S.E. Nichols, New York, citing several years of declining profits that culminated in a loss for 1987. Profits have been falling primarily because of virtually flat sales, lower gross profit margins and increased operating costs, Moody's said. Moreover, intense competition will result in marginal future profits, the debt rating service said. Since January, Nichols has been attempting to arrange bank financing after its previous banks canceled their credit agreements.

Wholesale Club Takes Over Ex-Costco Unit

INDIANAPOLIS — The Wholesale Club this fall plans to open its 18th membership warehouse in Costco's former St. Louis Park, Minn., store. Costco closed its two membership warehouses in the Minneapolis-St. Paul market and one in Milwaukee last month. The Wholesale Club already has five stores in the Twin Cities. The opening of its newest unit there will follow the chain's launching of a club in North Canton, Ohio, in early August.

Dart Group to Buy Half of Food Discounter

LANDOVER, Md. — After failing in hostile raids on major supermarket operators, Safeway, Supermarkets General and most recently the Stop & Shop Cos., the Dart Group has agreed to buy half of an 18-store food discount chain doing business as Shoppers Food Warehouses. Terms of the deal with Jumbo Food Stores Inc., were undisclosed. Herbert Haft and his son, Robert, control the Dart Group, which presently operates two discount chains, Trak Auto and Crown Books.

National Stationery Show Adds Home Office Products to Its Mix

NEW YORK — Home office products were added as a new merchandise category at last month's National Stationery Show.

The annual exhibition, held here at the city's Jacob Javits Convention Center and at Pier 92 from May 15 to 18, attracted 27,000 buyers who viewed roughly 2,200 exhibitor booths in 306,000 square square of total exhibition space, according to George Little Management, managers of the event.

The new, home office exhibit, which attracted more than 50 new exhibitors to the 42-year-old show, was added this year in response to the category's growing influence in the retail arena and to help social stationery retailers access the market, reported the show's organizers.

And to further acquaint stationery retailers with the home office category, the show offered a seminar titled, "Extensions: Moving Forward With Home Office Products."

Among the office products on display at the annual show were writing instruments, appointment books, calendars, desk organizers and file cabinets. The exhibitors included such vendors as Keith Clark, Metro Files, a subsidiary of Rolodex, Pentel and Crazy Glue.

The office products displays were held in overflow space containing about 225 new exhibitors at Pier 92. Next year, the entire show will be held in the Jacob Javits Convention Center, according to George Little Management.

The National Stationery Show is an international event for the social stationery industry which includes categories such as greeting cards, stationery, paper party products and gift items.

Color and design highlighted the exhibition floor in virtually every product category.

In home office, for example, exhibitors featured colorful organizer products such as file folders, file cabinets, calendars and business stationery in today's most popular colors and designs. Even items such as paper clips and writing tablets were available to buyers in the ever-popular shades of pink, blue and gray.

And in greeting cards, as in paper party products and gifts, the cornerstones of this industry, color and sophisticated designs abounded.

In fact, one of the trends in greeting cards appeared to be high-end products with high gloss. Many greeting cards were also available in warm and bright traditional images, photography, Impressionistic art and laser printing.

In paper partyware, pastels are still most popular, particularly seafoam green, peach, turquoise and pink. Lush English florals and such licensed characters as Betty Boop, Mickey Mouse and Suzy's Zoo remain very popular.

Buyers Nominate Vendors For 11th SPARC Awards

NEW YORK — Fifty-four finalists in 18 merchandise categories have been nominated for the 11th annual SPARC (Supplier Performance Awards by Retail Category) awards, announced Gene O'Donnell, SPARC committee chairman and senior vice president, general merchandise manager of Hills Department Stores.

The SPARC program, sponsored by *Discount Store News*, recognizes hard lines and soft lines manufacturer's contributions to the discount retailing industry.

The suppliers nominated on the first ballot were chosen by discount store buyers selected from *Discount Store News'* listing of the Top 100 chains.

(Continued on page 8)

deGraffenreid Named Group Publisher of DSN

NEW YORK — Jim deGraffenreid, a 10-year veteran of *DSN*'s parent firm Lebhar-Friedman, has been appointed senior vice president and group publisher, and is now group publisher of *Discount Store News*.

DeGraffenreid joined Lebhar-Friedman in 1977 as a salesman for *DSN* and *National Home Center News*, and two years later became *DSN*'s national sales manager. In 1981 he was appointed Chicago advertising manager for all Lebhar-Friedman publications and later that year was elected a, vice president of the corporation. Following several other positions within the company, he was made group publisher in 1987. In addition to *DSN*, deGraffenreid is group publisher for *Chain Store Age Executive* and *National Home Center News*.

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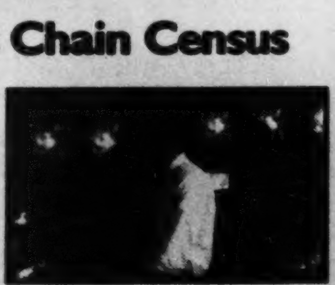


Men's Apparel at Ames Gets New Look

By Kenneth M. Chanko

NEW YORK — Looking to further fine tune its men's wear department, Ames Department Stores has redefined its strategy, resulting in a more flexible, fashion-responsive category.

Chuck Rilling, vice president, general merchandise manager of men's wear, told *DSN* that Ames is in the process of "narrowing assortments and getting behind items" much more so than the discounter has in the past.

In addition, to remain more flexible, Rilling said the Rocky Hill, Conn.-based chain is pursuing "a metro-market strategy," which encompasses totally separate planning for Pittsburgh; Baltimore; Rochester and Syracuse, New York; and other metro-area stores, breaking them out from more rural units.

Ames is rolling out its 'Summer Shop' in selected units for the season.

"This allows us to be much more responsive to fashion than before," Rilling explained. He added, "In general, we're paying more attention to demographics."

Philip Marshall, divisional merchandise manager of men's, said that while stock keeping units have been reduced, he doesn't think the customer perceives it. "What they do see is a more concentrated fashion presentation that really stands out. Less sku's allow us to highlight a certain look or item in a more dynamic way."

Indicative of this new mindset at Ames is its "Summer Shop" that's being rolled out in selected units for the season. It's a shop within the men's department that gathers together novelty T-shirts and tank tops, shorts, swimwear and other summer items.

"It's more of a 'concept' merchandising approach for us," said Rilling. "We now have a much more meaningful presentation." Marshall added, "We're no longer just sending the merchandise to the store and then forgetting about it."

Marshall said that this new strategy demands more from buyers and especially store managers, but he said that so far "buyers, store managers and the floor people have been extremely cooperative." Buyers are getting together more to coordinate color schemes, Marshall added.

Increased flexibility also extends to buyers' outlays. Marshall said that, for example, novelty T-shirts and tank tops, which include "anything printed," has been so strong over the last several weeks that the buyer of that category "got his own separate open-to-buy."

Marshall said that sales of novelty T-shirts so far for spring have "exceeded our goals. The business has grown over 100 percent." The novelty business includes licensed products, with California Raisins and Playboy being two of the more popular items. Rilling added that Ames is also getting a lot of mileage out of high school-name T-shirts.

In bottoms for spring/summer, abstract and tropical print jams "are not going to be what they were," said Marshall. Pieced looks and washed fabrications, in twills and canvas, will be strong instead. Marshall added that the chain is testing the fashion-forward stretch biker short as well.

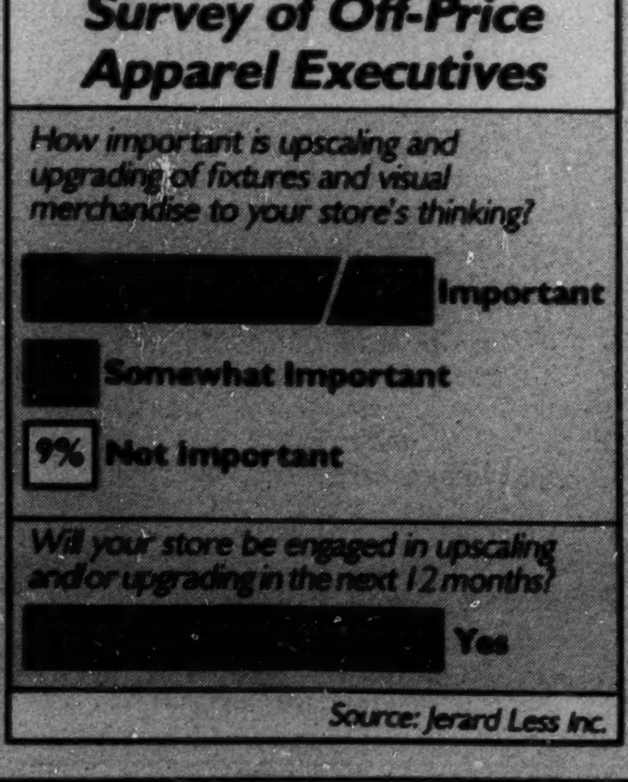
For fall, the chain will be getting behind turtlenecks and river driver-style shirts the way it has for novelty T-shirts and tanks tops for spring.

To further fine tune its men's wear department, Ames has redefined its strategy, resulting in a more flexible, fashion-responsive category.

Chuck Rilling, vp, gmm, men's wear, said that Ames is in the process of 'narrowing assortments and getting behind items' much more so than in the past.

MARKETWATCH

NEW YORK — As many as 82 percent of off-pricers surveyed said that upscaling and upgrading of fixtures and in-store visual merchandise was "very important," according to an exclusive study conducted by Jerard Less Inc. for *DSN* (see accompanying chart). The survey, which involved telephone interviews with eight of the nation's top off-price chains, also found that the majority will also be engaged in upscaling/upgrading over the next 12 months.



* * *

LOS ANGELES — MAGIC (Men's Apparel Guild in California) is planning to hold a preline event in Las Vegas, Nev., prior to its first show there, which would put it in direct conflict with the first California International Menswear Market (CIMM) in Los Angeles. The MAGIC preline, which would run Sept. 25-28, 1989, is scheduled to be held at a Las Vegas hotel near the convention center. CIMM will be held at the Los Angeles Sports Arena. The question of whether MAGIC exhibitors would want a preline show was included in MAGIC contracts that went out several months ago to show participants for the Las Vegas edition. A MAGIC spokesman said the contracts should be back before the end of the month, and soon after that a definite decision will be made on the preline. A CIMM spokesman said the decision by MAGIC to go with such an event "reinforces that a preline show is a valid concept." The spokesman said that CIMM is 65 percent sold for its September 1989 show, and he added that a new "Stay in L.A." direct mail and ad campaign will be launched soon.

* * *

CHICAGO — William Grueser has been named vice president, general merchandise manager of men's apparel and shoes at **Montgomery Ward & Co.** Grueser, who reports to Malvin Pavik, president of the Apparel Group, succeeds Warren Flick, who left the company. Grueser, who most recently was divisional merchandise manager of career apparel, among other categories, will be responsible for the sales and return on merchandise investment for all men's apparel, shoe lines and luggage.

* * *

WASHINGTON D.C. — Wholesale prices for women's apparel in April rose at a more moderate pace than the overall Producer Price Index released by the **Labor Department**. Wholesale prices on women's apparel were up 0.2 percent from March, and 1.5 percent compared to April 1987. Seasonally adjusted, prices increased 0.1 percent from March. The PPI for all finished products in April rose 0.7 percent from the March index and 1.7 percent from a year ago. Prices for apparel products alone edged up 0.2 percent in April from March.

DSN INSIGHTS

CE CHAIN CENSUS

Richmond, Va.-based Circuit City continued to strengthen its position as the industry leader by gaining market share from competitors. It plans to open 20 stores in '88.

CE Chains Slow Expansion to Retrench

By Josephine Fiamingo
Nationwide DSN Report

After a year of both external obstacles and internal problems that choked their businesses, most consumer electronics specialty chains are planning much slower expansion this year.

Instead of new stores and markets, attention will be paid to fine tuning their businesses by controlling costs and improving customer service.

The external obstacles ranged from a slowdown in the release of new products by manufacturers and highly competitive conditions in weak geographic markets to a less confident consumer and rising expenses.

Self-inflicted problems that affected CE chains included: overly rapid expansion by retailers anxious to use capital from public offerings; lack of cost controls; and poor management.

Most chain executives agreed that their businesses must be adjusted this year to survive in a slower growth environment. The CE industry is expected to be sluggish again in '88 with moderate retail sales growth of 2 percent.

Testament to retailers' de-emphasis on store expansion was their reluctance, in many cases, to ponder growth beyond the end of this year. Unlike in the past, most would not project their store count for 1989.

Circuit City continued to strengthen its position as the industry leader by gaining market share from competitors. However, many analysts predict that its ability to increase market share to offset the industry's flat sales may end in the next six to 12 months.

For fiscal 1988, ended Feb. 29, Circuit City's sales rose 34 percent to $1.35 billion. The 105-store chain plans to open 20 stores in 1988 and will enter the new markets of Florida, Northern California and Nevada.

(Continued on page 38)

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Despite the CE Industry's Hard Times, Circuit City Continues to Prosper
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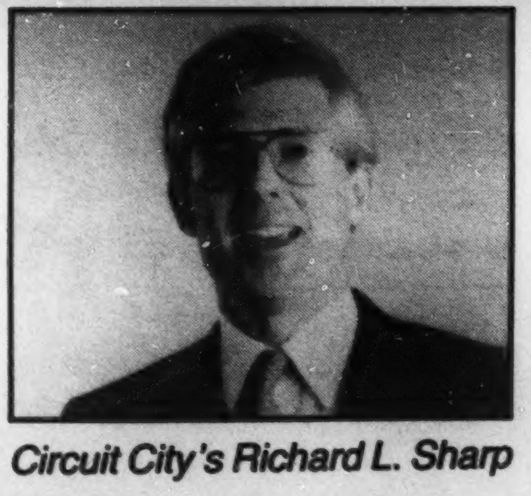


Circuit City's Richard L. Sharp

Top Consumer Electronics Specialty Chains

Chain	Sales (In Millions)		Percent Change	No. of Stores	
	1987	1986		Dec. 1988	Dec. 1987
Circuit City Richmond, Va.	$1,350.0	$1,011.0	34%	125	105
Highland Superstores Taylor, Mich.	753.4	656.4	15	83	72
Silo Philadelphia, Pa.	750.0	600.0	25	210	150
Best Buy Minneapolis, Minn.	439.0	240.0	83	43	40
The Federated Group City of Commerce, Calif.	436.5*	430.0	2	61	65
Crazy Eddie Edison, N.J.	317.0	352.5	(10)	43	42
Tops Appliances Edison, N.J.	280.0	260.0	8	2	2
Fretter Livonia, Mich.	260.0	273.0	(5)	55	47
Newmark & Lewis Hicksville, N.Y.	$ 242.4	$ 214.0	13%	52	46
The Wiz New York, N.Y.	218.0*	200.0	9	26	24
Audio-Video Affiliates Dayton, Ohio	211.7	228.8	(7)	125	117
American TV Madison, Wis.	198.7	160.0	24	7	6
Trader Horn Hasbrouck Heights, N.J.	140.0*	135.0	4	16	15
Luskins Baltimore, Md.	127.0	140.0	(9)	NA	44
The Good Guys San Francisco, Calif.	120.0	89.0	35	18	15
Brick Church Orange, N.J.	100.0	100.0	0	40	22

NA—Not available * *DSN estimates*

All figures for last completed fiscal year ended in first quarter of 1988, except American TV (June 30, 1987), The Good Guys (Sept. 30, 1987) and Tops Appliances (calendar year 1987).

Source: DSN research; Company reports

CE Chains Slow Growth To Retrench

(Continued from page 37)

Circuit City found a formidable competitor when it entered the San Francisco Bay area last year. For the first six months since Circuit City entered San Francisco, The Good Guys, which has been based there since 1973, saw its comparable store sales rise by 8 percent.

Earnings for the 15-store chain soared 86 percent to $2.6 million for year ended Sept. 30, 1987. Sales jumped 35 percent to $120 million. The Good Guys will open three stores in 1988 and plans to expand into Northern California in the near future.

Silo also remained relatively untouched by obstacles that thwarted other CE retailers in 1987. It is one of the few CE chains to plan an aggressive expansion program for 1988.

The 150-store chain, which was bought last year by Britain's largest CE retailer, Dixon's Group, plans to open 60 new units this year. Last year, Silo's sales rose 25 percent to $750 million.

Analysts said that Dixon's plans to enter Chicago by opening Silo stores there and in Milwaukee through leased departments in Marshall Fields department stores. Dixon's is also in the process of refining the 24-store St. Louis-based Tipton Centers it bought last July.

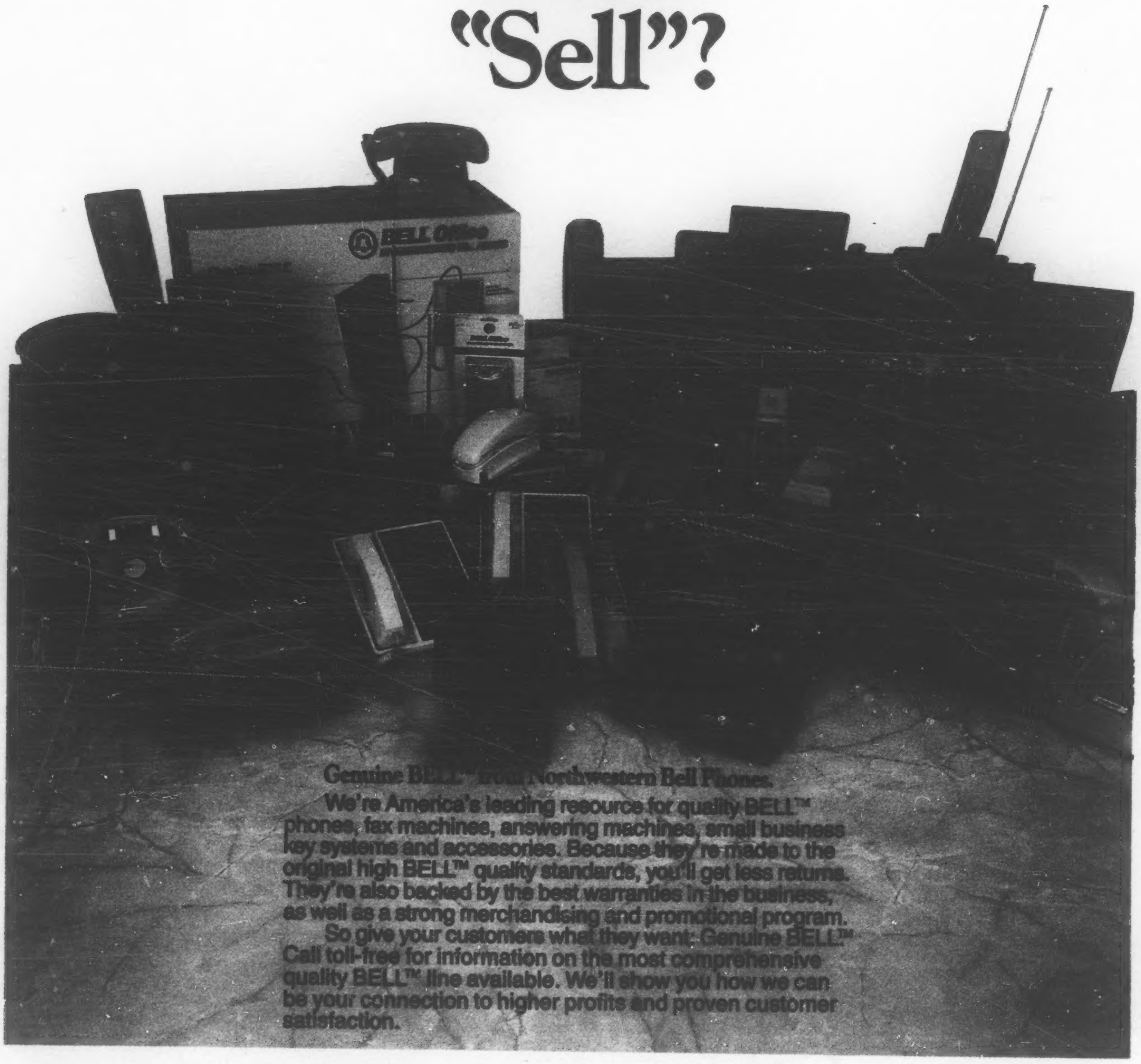
And, Dixon's says it is looking for more acquisitions of CE specialists. Among likely targets are The Federated Group, Newmark & Lewis, Fretter and Luskin's.

Madison, Wis.-based American TV also had a good year. Sales jumped 24 percent to $198.7 million for the fiscal year ended June 30, 1987.

The six-store chain plans to expand in the computer/software area with a separate selling space devoted predominantly to home office equipment and business product centers geared toward desktop publishing. It plans to open a new store this fall in Browndeer, Wis.

(Continued on page 43)

What Rhymes with "Sell"?



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CE Chains Slow Expansion Plans, Focus on Improving Bottom Line

(Continued from page 38)

Among the CE chains that have turned to more moderate expansion plans in response to adversity are Highland Superstores and Best Buy.

By far, Minneapolis-based Best Buy experienced the fastest sales growth in 1987. The 40-store chain's sales jumped 83 percent to $439 million. But, after opening 16 stores last year, Best Buy plans to open only one to four more in 1988. "We are planning for a modest expansion this year to grow and mature the business," said Thomas C. Nelson, vice president of communications and investor relations for the chain. Nelson said the company is also trimming staff for better cost control.

Taylor, Mich.-based Highland Superstores remained the second-largest CE retailer in the nation, posting a 15 percent increase in sales to $753.4 million for the fiscal year ended Jan. 31, 1988. But, indicative of the CE environment, earnings fell to $13.9 million from $20.2 million and same store sales fell 10 percent.

The 72-store chain plans to open only 10 to 12 stores this year vs. the 19 stores it opened last year. Highland entered three major new markets in 1987 (Milwaukee, Minneapolis and New England), but will not enter any major new markets in 1988.

Highland Refocuses Efforts

Highland is also refocusing efforts inside its organization. Its efforts at improving customer satisfaction include increasing product sales training and working on a new prototype that will refine instore customer flow and provide quicker check out.

A number of CE chains either had flat or declining sales in 1987 and many closed units.

Livonia, Mich.-based Fretter posted a 5 percent sales drop to $260 million. The 47-store chain closed one unit in Highland Park, Chicago, but plans eight openings in 1988 in Chicago, Ohio and Boston.

Baltimore, Md.-based Luskin's reported a 9 percent drop in sales to $127 million. In 1987, it closed 13 stores in Michigan, Kentucky and Ohio, while opening four in the Richmond/Tidewater area.

Audio-Video Affiliates, Dayton, Ohio, experienced a sales decline of 7 percent to $211.7 million. The chain closed nine stores in Kentucky, Indiana, Arkansas, West Virginia and Oklahoma in 1987. This year, it plans to open 18 stores in existing markets and will not enter any new markets. Net income for year ended Jan. 31, 1988, fell 48 percent to $3.87 million.

And Edison, N.J.-based Crazy Eddie, which changed management after a lengthy proxy fight in 1987, saw its sales plunge of 10 percent to $317 million. Elias Zinn, president of the 42-store chain, said its new, commissioned-sales program increased gross margin to 22 percent and a new POS system has helped to cut costs by $30 million. The chain plans one store opening this year in Connecticut.

City of Commerce, Calif.-based The Federated Group, which was bought by computer maker Atari in October, had estimated sales of $436.5 million, up 1.5 percent. The Federated Group closed two stores in Anaheim, Calif., and Wichita, Kan., and will close two more by the end of June.

Orange, N.J.-based Brick Church experienced a flat year, posting sales of $100 million. This year, 22-store Brick Church plans to grow to 40 units, including previously announced leased departments at TSS-Seedman's discount stores in New York and new stores in North Brunswick, Little Ferry, Paramus and Woodbury, N.J.

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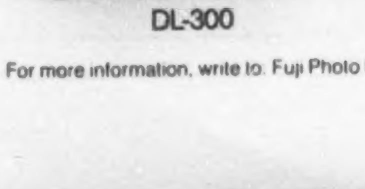
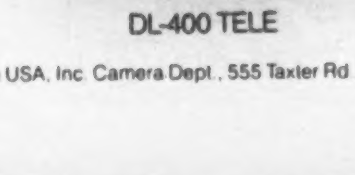


DL-300



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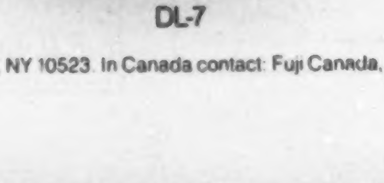

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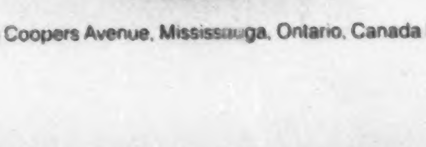

DL-150

DL-250 TELE

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IMRA '88: Politics, Trends, Consolidation and Competition

(Continued from page 1)

George Bush over a field of five Democratic contenders (Michael Dukakis, Jesse Jackson, Mario Cuomo and Bill Bradley) as the person they would prefer to see elected president.

A higher percentage, about 70 percent, felt that the vice president was the most likely candidate to win election to the White House, a finding that runs counter to the extremely close race predicted by convention speakers syndicated columnist Mark Shields, *Time* magazine columnist Hugh Sidey, and former House Speaker Thomas "Tip" O'Neill Jr.;

- Heard IMRA president Richard Hersh describe the association's growing political lobbying efforts. Hersh also offered a special plaque to Stephen Goldberger, chairman of Hills Department Stores and IMRA chairman, in memorial to his father, Hank Goldberger, who died this year;
- Predicted that discount retailing is on the verge of a new era in which hostile takeovers, management buyouts, further consolidation, and new forms of retailing—particularly membership warehouse clubs, hypermarkets and specialty superstores—will play havoc with traditional ways of doing business;
- Identified an increasingly competitive, overstored environment; the "commodization" of products; dealing with "de-massification" of what had been a standardized, monolithic industry; a dramatic shift in the relationship between retailers and their suppliers with the goal of more efficiently channeling goods to consumers; and government intervention as among the most pressing challenges facing retailers in coming years.

Most exhibitors said they felt there were fewer retailers at the convention this year, and of the chains represented, there appeared to be fewer personnel walking the show. Notable by their absence were both May Department Stores discount chains, Caldor and Venture, while such large chains as Zayre and Fred Meyer chose to send only one representative. About 2,300 people attended the convention, according to Hersh, up from a little more than 2,100 last year.

The nation's highly charged political climate even seemed to affect retailers' view of business conditions. "We're having a good year," said Alvin Glosser, chairman of regional discounter Glosser Bros. "But, I expect consumers to be more cautious from now until election time."

George Granoff, president of Bradlees, which just became a private company as a result of parent Stop & Shop Cos.' efforts to fend off a hostile takeover bid by the Dart Group, told *DSN* that comparable store sales are running ahead of plan at about 3 percent to 4 percent over last year. The apparel business is "unfocused" with "no clear fashion direction," but hard lines sales have been very good, led by the home store categories of domestics and home furnishings and consumer electronics.

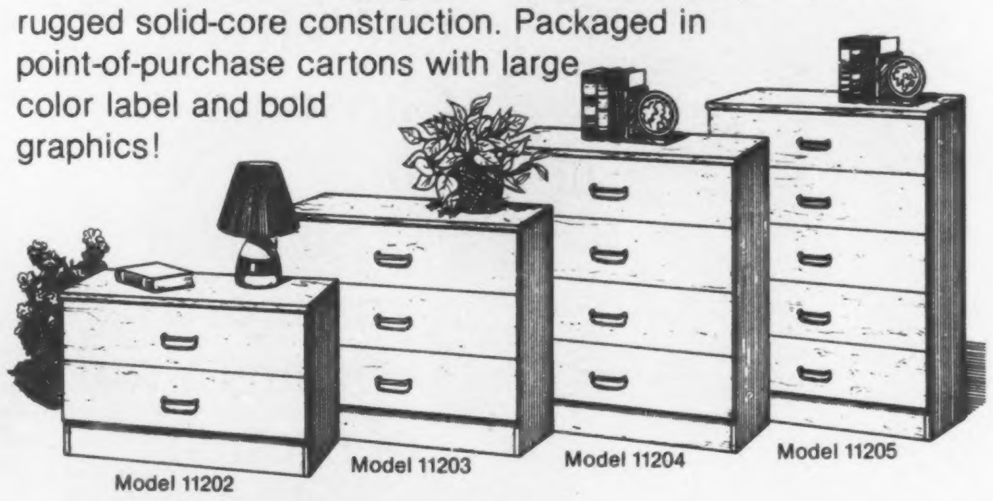
Bill Atkinson, president of Canadian discounter Towers Department Stores, said he sees 1988 as "a reasonably tough year. After five years of sales expansion, things have started to slow down." He, too, cited the lack of fashion direction in apparel, but said he is hoping for some sales recovery in the second half of the year. At Towers, consumer electronics, records, cameras, ready-to-assemble furniture and housewares have been performing strongly. The chain is expanding its soft home fashions and refixturing its curtains and drapery area.

Stan Brenner, president of New Castle, Pa.-based Fisher's Big Wheel, told *DSN* that his chain has been facing more competition in smaller markets from K mart, Ames and Wal-Mart. "We're structuring ourselves to compete with them in both '88 and '89," said Brenner, who added that Fisher's, which currently operates 90 stores in six states, will expand store count by 10 percent in each of the next two years. Lifestyle departments, such as RTA furniture, will receive the most attention and funding, he said.

Commenting on the lack of fashion direction in apparel, Eric Flodberg, vice president and general merchandise manager at Fisher's, added: "We're selling five-pocket basic jeans, and when you start selling that you know you're in trouble."

The women's apparel business "started slowing down toward the middle of last year and is still very soft," added Joe Ettore, senior vp, gmm, soft lines for Secaucus, N.J.-based Jamesway. "A lot of the juniors-oriented specialty stores knocked the female shopper off kilter, with everything looking juniorish, even in missy. Hence, when The Limited and The Gap started to slow down, so did a lot of the discounters."

In contrast, Jamesway's home furnishings business is "going great," said Ettore. "It's become a fashion business and it's very exciting."



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IKEA Suit Forces STOR Catalog Retraction

(Continued from page 1)

ing the court to recognize its claim of replication and to prohibit STOR from continuing this action. IKEA is also seeking damages.

At presstime, STOR had not yet filed a formal response to the lawsuit. However, STOR president Jim Stadtlander told *DSN*: "We feel we have done nothing wrong and we are going to vigorously defend ourselves."

Both retailers specialize in predominately European style ready-to-assemble furniture, domestics and housewares, featured in typically 150,000-square-foot facilities, where the accent is on self-service. While IKEA's two U.S. locations are in Plymouth Meeting, Pa., and Dale City, Va.—with a third site planned for Baltimore—STOR currently operates one Southern California unit in City of Industry outside Los Angeles and has recently broken ground on a second site in nearby Irvine.

While IKEA is not yet on the West Coast, the chain said it plans on eventually opening stores in the area, and its catalogs have already been distributed to the market.

It was the 1988 STOR catalog that came under fire first in the proceedings between the two retailers when IKEA sought to stop STOR from using the catalog because it so closely resembled IKEA's 1986 and 1987 catalogs.

Although this issue reached a preliminary hearing in a Los Angeles federal court, STOR stated it was no longer using the 1988 catalog, so the injunction request was viewed by the court as no longer necessary.

However, federal Judge Harry Hubb stated that if STOR had not ceased the use of its catalog, it was likely IKEA would have won its request. STOR now has issued a spring 1988 catalog, which at presstime was under review for copyright infringements by IKEA's lawyers.

The dispute over the original STOR 1988 catalog, however, is not over. The matter of copyright infringement will still be under consideration when the lawsuit reaches the court some time in the next few months.

And because the IKEA catalogs were copyrighted, and predictably easier to protect than a retail concept, it is this issue which the Swedish retailer has the best chance of winning, according to industry analysts.

The similarities between the retailers' catalog front and back covers are easily noticeable when placing the 1988 STOR catalog next to IKEA's 1986 version.

Other parallels are found throughout the catalogs' room vignette photos. Not only are products similarly displayed, but lighting and camera angles are near duplicates and captions are almost identical.

While IKEA said it does not object to a retailer using its concept or catalog approach, it does object to the blatant reproduction of its business. Several similar retailers, including STOR, Home Express, Montgomery Ward's Home Ideas and Federated Department Stores' HomeWorks, have sprung up recently. However, only STOR so closely follows IKEA.

"Their [STOR] store is an IKEA store, they have just changed the name," commented IKEA's lawyer, Allan Zelnick. "IKEA has no objection to them [STOR] using the concept . . . what we object to is that in doing so, they copied IKEA from A to Z."

According to IKEA, the two chains were involved in settlement negotiations from January of this year until March, when talks broke off between the retailers.

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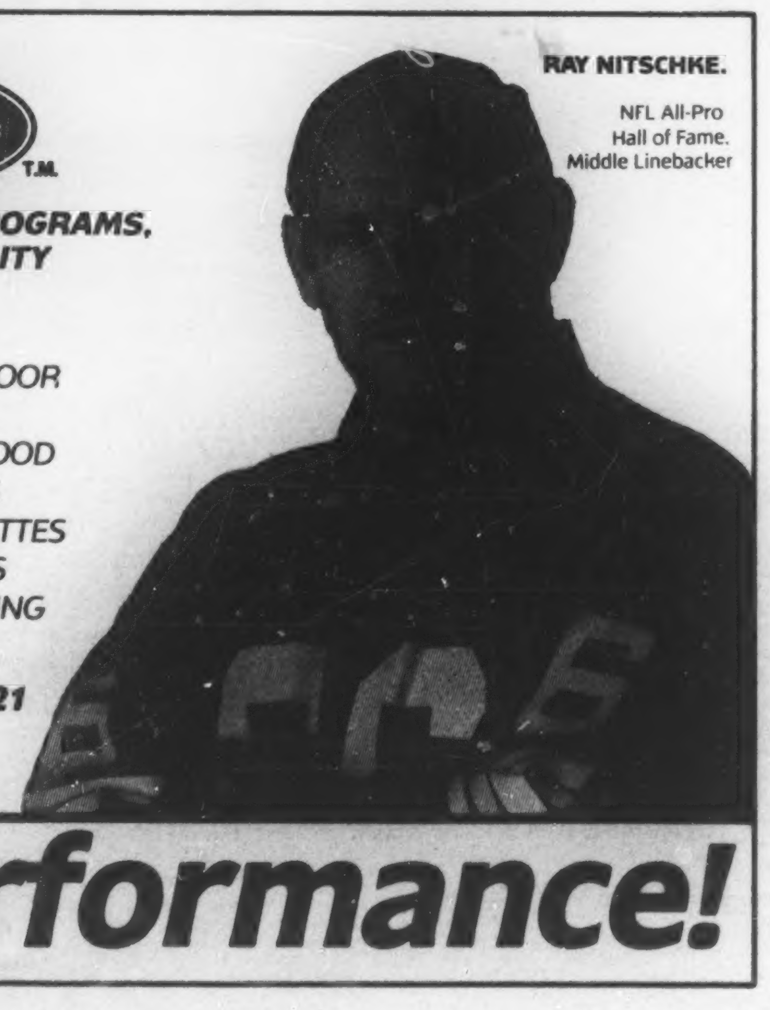

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Discounters Win One; Court OKs Gray Market

By Kenneth Rankin

WASHINGTON — In a major victory for the nation's discount retailers, a sharply divided U.S. Supreme Court upheld controversial Customs Service regulations allowing the "parallel importing" of billions of dollars in bargain-price "gray market" merchandise.

Siding with attorneys for K mart and New York City camera discounter 47th Street Photo, the high court ruled 5-to-4 that Congress intended the 1930 Tariff Act to protect only American businesses—not multinational firms that make goods abroad and then attempt to monopolize U.S. distribution of those products in this country.

The immediate impact of the ruling will be to lift the cloud of doubt over the legality of parallel imports stemming from a 1986 federal appeals court decision that struck down those gray market Customs Service rules. As a result, the demand for gray market watches, cameras, fragrances and other heavily parallel imported products is expected to rise as word of the Supreme Court's action spreads through the U.S. retail community.

More importantly, though, the decision upholding the legality of parallel imports assures the nation's discount

(Continued on page 10)

Bradlees To Jettison 58 Units In Wake of Takeover Attempt

By Laura Liebeck

BRAINTREE, Mass. — Stop & Shop's move to sell nearly a third of its Bradlees discount chain is the latest example of the financial repercussions companies suffer after warding off hostile takeovers.

In recent weeks, Bradlees and Gold Circle have been the focus of much attention as their parent companies struggle to tame huge debts resulting from new management. And, with takeover activity in discount retailing expected to continue or even accelerate, many discount executives will be hard pressed to keep their attentions focused on gaining market share.

Bradlees
FOR SALE

Stop & Shop put Bradlees' 58-store Southern region on the sale block. They produced $635 million in sales last year. (DSN photo)

As the most recent victim of a thwarted hostile takeover, Stop & Shop, parent of Bradlees, based here, is now trying to sell off the discounter's 58-store Southern region, or one-third of the chain, to pay down the $1.4 billion debt incurred in the nearly completed LBO.

Stop & Shop successfully warded off an assault by The Dart Group through an LBO financed by Kohlberg Kravis

(Continued on page 29)

Heck's Seeks Approval to Shutter 40 Locations

Chain Posted Loss of $61.3M in '87

NITRO, W.Va. — In the third round of store closings over the past year, Heck's is seeking approval of bankruptcy court to close about 40 of its 118 remaining stores and fire some 1,700 of its 5,000 employees.

Heck's said it hasn't determined which stores to close.

If approved, the closings would slash sales to about $300 million a year from $417.8 million in calendar 1987. The impact on profitability remains undetermined, Heck's said in announcing its store closing plans. In calendar 1987, Heck's lost $61.3 million, including $33 million related to closing 29 stores in mid-1987 and nine after Christmas.

Heck's filed for Chapter 11 bankruptcy protection March 5, 1987, after the Toussie-Viner investment group dropped negotiations to acquire Heck's for $145 million.

Heck's operates 92 discount stores under that name, as well as 26 smaller stores named Maloney's, a variety store chain that Heck's acquired in 1985 that then consisted of 35 units. At its peak, in 1986, Heck's operated a total of 165 stores, and then closed 13 in that year.

The bankruptcy court hadn't scheduled a hearing on the proposed closings as of presstime, said corporate counsel William Bragg, but a date is expected in late June.

The layoffs include about 35 of 200 employees at its headquarters, said Bragg.

Heck's stock closed at $1.87 on June 3, when it announced the new closings, compared to $8.75 shortly before it declared bankruptcy last March.

Final results for Heck's new fiscal year, which ends in February, aren't yet in. But indications are that stockholders' net equity of $71.8 million sustained a "substantial decline" during 1987.

During January and February 1988, Heck's lost $2.1 million on sales of $39.8 million, compared to a loss of $7.3 million and sales of $57 million in

(Continued on page 29)

ShopKo To Debut 2 Hypermarkets

GREEN BAY, Wisc. — Add ShopKo to the list of retailers entering the burgeoning hypermarket field.

The Midwest regional discounter will open a 180,000-square-foot Twin Valu hypermarket early next year in the Cuyahoga Falls suburb of Akron, Ohio, and later in the Euclid suburb of Cleveland.

ShopKo will handle the stores' general mer-

(Continued on page 31)

Sears Launches Gift Sender Kiosk

BOSTON — Sears has introduced an interactive shopping kiosk, called Gift Sender, which it plans to place in Sears stores, transportation centers and major office buildings.

The Gift Sender's don't have a Sears identification nor does it merchandise any of the retailer's products.

Eric Saunders, senior vice president, administration and planning, Sears Merchandise Group, said that the public access kiosk will be a one-stop shopping alternative for gift shoppers, offering a wide range of jewelry, personal care products, florals and other gift items, which can be paid for and then shipped

(Continued on page 34)

GIFT
Way to Gift Shop

Higher Prices, Personal Videos, DAT Spark CES

By Peter Hisey

CHICAGO — The consumer electronics market may be as much as two years away from a comeback, according to retailers and vendors at the summer Consumer Electronics Show here this month.

Sales of VCRs have stalled and actually declined over the past year, and sales of CD players, the brightest spot on a rather uninspiring retail landscape, are starting to slow down. With widespread introduction of Digital Audio Tape (DAT) at least a year away and the premiere of Tandy's recordable compact discs slated for 1990, there are no new hot products on the immediate horizon.

This is not to say, however, that the show was devoid of interesting products. Sony's 8mm portable video system, which could make airline movies a thing of the past, created considerable dealer attention, while an expanded and improved selection of portable CD players (including a palm-size one from Sony) should

(Continued on page 31)

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MARKETWATCH

Filene's Basement Sold in LBO

TORONTO — Filene's Basement, the off-price apparel chain based in Wellesley, Mass., will be sold by Campeau Corp. to an investment group led by the off-pricer's management, including Samuel Gerson, chairman of Filene's Basement, and Mone Anathan 3d, president, along with Greylock Investment Co., Oak Investment Partners and J.H. Whitney. Terms of the leveraged buyout were not disclosed, nor were the chain's 1987 profits. The 22-unit Basement had 1987 sales of $278 million, up about 12 percent from the year before's $248 million. Campeau, which acquired the Basement's parent, Federated Department Stores, in April, also intends to sell Federated's Main-Street, The Children's Place and Gold Circle divisions.

Tuesday Morning Eyes Restructuring

DALLAS — Closeouter Tuesday Morning hired Alex. Brown & Sons, an investment banking firm, to advise it on "strategic alternatives to maximize shareholder's value." The options include a possible sale or merger of the 93-unit chain; buying another business; a buy-back of the $73 million retailer's stock, or a leveraged buyout by investors that could include current senior management.

Best Products Expands Best Jewelry Arm

RICHMOND, Va. — Best Products has expanded its Best Jewelry specialty store operation—already in 10 states and the District of Columbia—to California by opening 2,000-square-foot units in the Del Amo Fashion Center in Torrance and in the Northgate Mall in San Rafael. Similar stores are already set to open this summer in the Santa Rosa Plaza, Santa Rosa, The Mall of Victor Valley, Victorville, and Cental Coast Plaza, San Luis Obispo, with other California sites under consideration. The cataloger has also opened a unit in Virginia Beach, Va., and all told, plans to open about 15 Best Jewelry stores this year and 20 to 30 more in 1989.

Grand Auto OKs Sale to PACCAR

OAKLAND, Calif. — As expected, stockholders of Grand Auto have approved its acquisition, effective June 1 by PACCAR, a Seattle-based maker of heavy trucks. Dave Fitterer, vice president and general manager of PACCAR's automotive group, is now sitting in Oakland to oversee operations of the 107 Grand Auto Stores. In addition to Grand, PACCAR has acquired Al's Auto Parts, a 25-store chain in the Seattle area.

In-store Promo Costs to Hit $100B by 1990

OSLO, Norway — Retailers and suppliers will be spending more than $100 billion annually by the end of the decade for in-store promotions, interactive selling machines and other targeted marketing communications, according to L. Randy Rile, president of The Howard Marlboro Group, a marketing and promotional organization. The reason for this is that the American retailing scene is now composed of "dozens of identifiable and viable economic subgroups, setting up a highly fractionated marketing environent" that can best be reached by specific promotions and merchandising/displays, he told the annual seminar of The Norges Kooperative Landsforening, a Norwegian marketing organization.

TSS-Seedman's Reopens After Fire

HEMPSTEAD, N.Y. — Less than eight weeks after a fire halted business at the TSS-Seedman's store here, the unit reopened to customers on June 9. Company chairman Julius Kasinitz said the renovations were done in record time due to the hard work of local public officials, company employees and vendors. The April 18 fire slightly damaged the store's structure and damaged 95 percent of the inventory. The fire was ruled arson by local fire investigators. No one has been apprehended, said Kasinitz.

Office Depot Goes Public

BOCA RATON, Fla. — On June 1, Office Depot became the first office products megastore to be a publicly held company. The stock, traded over-the-counter under the ticker symbol ODEP, was priced by Merrill Lynch, lead underwriter, at $10. But within days of the issue, the stock price rose 30 percent to 13¾ points.

Office Square to Debut 1st Chicago Unit

PALATINE, Ill. — Office Square, K mart's new office megastore concept, will open its first store in this Chicago suburb this summer. Located in Park Place Center at Dundee and Rand Roads, the 25,000-square-foot warehouse-style megastore will be the second such retailer to open in the Windy City. Office World opened in suburban Chicago in April. Plans are currently underway for a second Office Square in this market.

Costco Issues Member Credit Card; Move Doesn't Entail Higher Prices

KIRKLAND, Wash. — Costco has joined the ranks of wholesale clubs offering members a charge card.

The 44-store membership warehouse chain at presstime is due to complete rolling out its proprietary charge card in its East and West Coast markets after launching the Costco Preferred Member Card in March in the 12-unit Pacific Northwest region.

The membership warehouse views the card as a service enhancement to business members who account for 70 percent of Costco's sales, making it easier and more convenient for them to shop. Business members will get one monthly bill listing their Costco purchases and won't have to carry large amounts of cash or write a check each time they visit a club.

Costco president Jim Sinegal said the card wouldn't cause the wholesale club to raise its prices as the company isn't being charged a merchant's fee on charge sales.

"We made a very attractive two-year deal with Seattle First National Bank. They aren't charging Costco any fee [which can range between 1½ percent to 4 percent of a credit sale] as they want to establish a relationship with our members," he said.

If Seafirst wants to change the agreement "and force us into a position where price increases were called for, we would simply discontinue the credit program," he said.

The card costs members $15—which goes to the bank, not Costco—carries a 16 percent interest charge and has a 25-day grace period in which to pay a charge fee.

Based on a member's billing cycle, the interest-free period could be as much as 40 days.

The $15 fee will be waived for the first year for members who sign up for the card before the end of 1988. They won't pay the fee until they renew their membership in 1989.

All of Costco's wholesale primary and secondary members as well as Gold Card group members are eligible for the card. Signing up for the charge account is voluntary, but members who get a Preferred Card would show this card, rather then their regular Costco card to establish their membership status.

Costco expects about 25 percent to 30 percent of its business members to sign up for the card. In its initial mailing of applications, Sinegal said the bank reported the response for cards was about five times higher than normal.

"We don't have any idea what effect the card will have on our sales. I don't see any increased consumer volume, although some of these members will likely sign up for the card," he said.

Seafirst provided Costco with the machines that read the card, along with the program that enables a club's register to capture a charge sale.

CVN Offers Its Own Credit Card

Adds Warranty Inducement

MINNEAPOLIS — Cable Value Network, in a test program, has become the latest teleshopper to offer its own credit card to customers while continuing to accept the usual bank and entertainment charge cards.

Like a traditional department store credit card, the proprietary CVN Convenience Card is a no-fee, revolving charge account that requires a minimum monthly payment, either 10 percent of the balance or $20, whichever amount is greater.

As an added user inducement, CVN automatically doubles the manufacturers' warranties on products purchased with the CVN card.

CVN's credit plan and warranty program differs from the first such benefits provided by video retailers. QVC was the first teleshopper to offer a credit card, while Tel-Shop was the first to provide a warranty plan.

Theodore Deikel, CVN Cos. chairman and chief executive officer, said CVN's "extensive research . . . found that when viewers were given the opportunity to buy with monthly payments, CVN experienced dramatic increases in total sales, new customers and sales per customer."

CVN is offering its card to selective consumers such as customers who have made multiple purchases or cable viewers who aren't shoppers but qualify for another line of credit. The amount available to shoppers varies, with $2,000 the ceiling.

General Electric Commercial Credit Corp. is providing the financial underwriting for the card as well as administering the program, with CVN, in the end, backing the card with its own receivables. GECC has to approve each credit application.

Deikel said almost all major retailers offer their own credit program because a proprietary card "establishes a more

(Continued on page 4)

Wal-Mart Leads Fortune Retailers

NEW YORK — Wal-Mart proved to be the star performer among the 50 retailers on the 1988 *Fortune* 500 list of top service companies.

In sales, Wal-Mart moved up to No. 5 from No. 7 among retailers, logging sales of $15.96 billion. In total profits, Wal-Mart ranked third, behind retailing leader Sears, Roebuck & Co., No. 1; and K mart, which was No. 2.

In profits as a percentage of sales, Wal-Mart also ranked No. 3; beating K mart, No. 21; and Sears, No. 32; *Fortune* reported.

Among discounters, Toys "R" Us recorded the best profit margin on sales, 6.5 percent, which ranked it No. 4 among all 50 retailers.

The champ in profit on sales, though was McDonald's, 12.2 percent. Although the hamburger chain ranked No. 21 in sales it came in No. 5 in total profits.

In annual growth rate earnings per share, Wal-Mart came in first, with a 37 percent gain to $1.11 per share from 79 cents in 1986.

In other discounter sales rankings, Target parent Dayton Hudson moved up to No. 9 from No. 11; Caldor and Venture parent May Department Stores held steady at No. 10; Zayre moved up one notch to No. 17; Bradlees parent Stop & Shop Cos., moved up one position to the No. 24 spot.

Losers in the rankings were Service Merchandise, which fell to No. 35 from 31, and another cataloger, Best Products, which fell to 45 from 38. Ames slipped to 44 from 43.

Hills Department made the list at No. 50. Hills wasn't on *Fortune*'s 500 Service list for 1986.

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Teleshoppers: Look Forward to Slimmer Industry

By Peter Hisey

BOSTON — Teleshopping's boom-and-bust cycle will eventually settle down, leaving two, perhaps three, survivors to carve up the lucrative $2 billion market, a panel of home shopping executives said.

Speaking at the recent Electronic Shopping '88 conference sponsored by Touche Ross, the accounting and consulting firm, the panelists said that the eventual winners will include an upmarket and a downmarket service, with the possibility of a specialty or strong regional operation remaining.

The survivors will share several qualities, noted Bruce Sellers of QVC, an upscale service whose merchandise offering includes goods from Sears, Roebuck. They will be live, 24-hour-a-day, fully dedicated (handling shipping and stocking) and appeal to shoppers and non-shoppers alike. "We have to have high entertainment value, or we won't hold our viewers," he said.

Michael Rosen of Shop Television Network, another upscale service, concurred. "Most revenues so far come from the very heavy TV watcher," he said. "We have to reach the selective TV watcher to see any real growth." And the selective TV watcher will want to be entertained, he suggested.

Home shopping networks will face a shakeout, and soon, for a variety of reasons. First, the average viewer really doesn't need more than two shows. Second, the industry's economics favor national services that will drive out smaller teleshoppers that are broadcast on a limited number of cable and/or commercial TV channels.

Also, there are limited channels available on most cable systems, and retailers will have to fight with existing entertainment networks as well as a host of new services (like Ted Turner's Turner Network Television and a new NBC business and sports news network) for space on local systems. More channels are becoming available, but cable operators are looking for more entertainment vehicles, not more shopping shows.

Therefore, panelists said, look for a spate of acquisitions and mergers in the near future as established systems jockey for a national posture and dominant presence on cable systems across the country. "It's going to be very tough for someone to get into this business," one panelist said.

Not that they don't expect more to try. Touche Ross projects that the passive TV home shopping segment of the electronic retailing industry will grow significantly, to about $5 billion by 1992. The company noted, however, that the growth will benefit primarily two or three leading players.

Interactive home shopping, another electronic retailing segment, will increase to over $3 billion by 1992, the company said. Once again, a handful of national players will grab the lion's share of revenues.

"1988 will provide the introduction of interactive home shopping services to a number of regions, providing the basis for nationwide services," said Doug Hosking, national director of Touche Ross' electronic shopping consulting group.

Representatives from two of the major interactive shopping services were on hand at the conference. Harry Smith of Prodigy, a computer home shopping service, and Stuart MacIn-

(Continued on page 34)

Selling Kiosks: Mixed Reviews

BOSTON — Selling machines received a mixed review at the Electronic Shopping '88 conference.

A number of the conference's sessions were devoted to retailers reporting on their experience with in-store, interactive laser videodisc terminals, so-called selling machines, as sales promotion devices.

At a luncheon address, Bill McDonald of California's Broadway Department Stores noted that while "[this] technology is in our future," it hasn't done much yet.

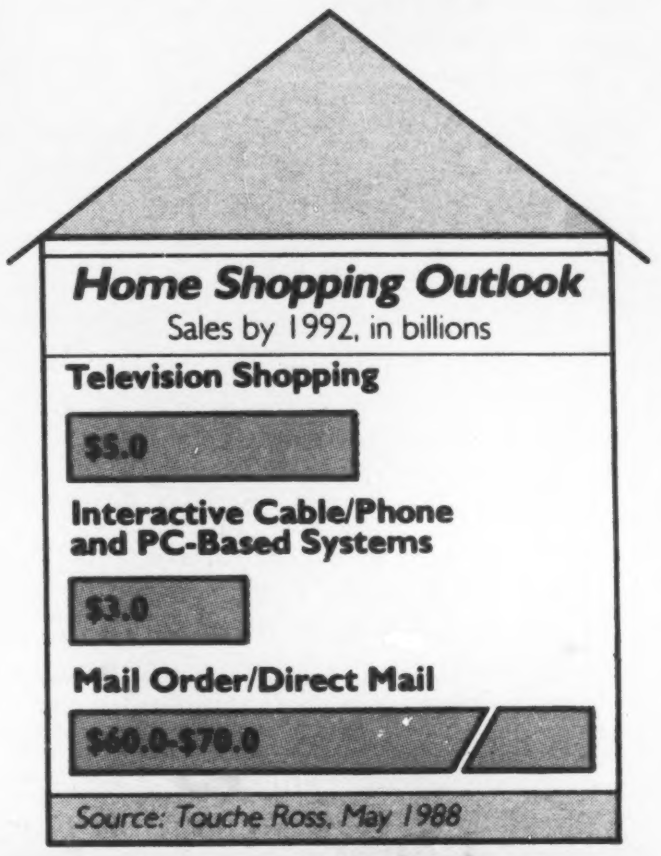
He was referring mainly to a three-month test of Levi Strauss' JeansScreen, an interactive kiosk developed by ByVideo that allows customers to view a wide selection of Levi products, then order directly from Levi and receive the products at home.

Because of the vagaries of the department store business, however, MacDonald considered the test, which took place last fall, at best a very limited success.

Kiosks were installed in seven San Diego-area stores, and were designed to be saleshelp assisted (customers would have to place actual orders through salespeople, mainly because of Broadway's commission package). At first, Broadway advertised the availability of the JeansScreen, which it found was not worth the time and money. "People will not come in just to see or use the machine," MacDonald said.

More disturbing was the number of people who used the machine. Less than half ever touched it, and of those, less than 3 percent ever bought anything.

(Continued on page 34)



Source: Touche Ross, May 1988

Housewares Sought by Wealthy at Discounters

DUBLIN, Ohio — When the nation's wealthier consumers set out to purchase their housewares and small appliances, they head for discounters, according to a consumer focus series on the "Up Market" conducted by Management Horizons, the retail consulting firm based here.

Discounters also enjoy a great measure of success selling these customers non-electronic toys and games, infants', boys' and girls' apparel, children's shoes, and domestics.

But, "Up Market" consumers bypass discount stores when purchasing women's and men's dress apparel, shoes, fine jewelry and furniture, the survey revealed.

Men's and women's casual apparel, home furnishings, electronics/home entertainment and tableware are generally purchased at a variety of retail outlets, with discount stores garnering only a small portion of the sales of these product types.

The survey included responses from 5,000 consumers nationwide. This fall, a similar sampling will be undertaken to examine such retailing formats as hypermarkets and TV home shopping, said Many Putnam, manager of the consumer focus series in the retail intelligence system of Management Horizons.

In the forthcoming survey, Putnam said consumers will be asked to indicate how they shop different types retail formats.

Management Horizons identifies the "Up Market" as including persons or families with annual incomes in the upper 25 percent of the American population.

The "Up Market" population is divided into six segments:

- Younger singles, who are under 45 and earn $32,500 and over;
- Younger couples, who are under 45, with no children and an income of $45,000 and up;
- Younger parents, under 45, with children, and an income exceeding $37,500;
- Mid-life families, where the household head is between 45 and 64 years old, with de-

(Continued on page 13)

Where Upscale Consumers Shop for Selected Household Goods

Discount stores attract the highest percentage of upscale customers to their housewares, small appliances, toys and domestics selections.

Percent of Up Market shoppers who purchase these products:

Type of Store	Housewares	Small Appliances	Toys/Games*	Domestics
Discount Store	49.8%	35.5%	31.8%	22.4%
National Chain	6.3	11.8	4.9	19.4
Department Store	13.8	14.9	3.8	31.9
Catalog Showroom	2.0	18.0	4.5	2.3
Specialty Store	6.0	7.1	44.3	5.5
Off-Pricer	5.6	3.4	2.0	12.3

* Non-electronic

Source: Management Horizons, The Up Market

Mars Stores Restructures; Predicts Rebound Ahead

NORTH DIGHTON, Mass. — A recently completed companywide restructuring program may position Mars Stores, based here, on better financial ground to turn a profit and expand, said president Paul Kwasnick.

Already, first quarter results are "encouraging," Kwasnick said, although a net loss is anticipated.

Mars Stores posted a sales and earnings decline in 1987. Last year, the discounter liquidated its Big Value Outlet division and closed one of its two existing Gaynes department stores, the biggest sources of its earnings decline. The chain also closed three Mars stores.

Kwasnick told *DSN* during the International Mass Retail Association's convention in Nashville, Tennessee, last month that he was confident the company's restructuring will enable it to post positive earnings this year and position the company for future growth.

Mars listed restructuring costs of $2,306,000 and a loss due to the disposal of Big Value Outlet of $591,000.

The company's restructuring program included the liq-

(Continued on page 13)

Glass: Wal-Mart Will Surpass $20B

By Jacalyn Carfagno
Special to DSN

FAYETTEVILLE, Ark. — David Glass, addressing Wal-Mart Stores' shareholders for the first time as the company's chief executive officer, promised "the best is ahead of us, not behind us."

Since founder and chairman Sam Walton tapped Glass earlier this year to take over a job he'd kept for himself since the firm's inception, Glass has had to address the question of whether Wal-Mart can continue the phenomenal growth that will push it to over $20 billion in sales this year.

Talented, dedicated employees and a strong financial base, Glass said, have positioned Wal-Mart to "perpetuate forever going forward."

Glass told a crowd of 7,000 that gathered June 3 in the University of Arkansas basketball arena here, the growth could only come if the company remains aggressive.

Glass spelled out the Wal-Mart philosophy that has allowed the company to expand from one store in 1962 to 1,144 Wal-Marts, 86 Sam's Wholesale clubs and 14 dot Discount Drug stores today. "We are really agents for our customers," Glass said. Although Wal-Mart prides itself on offering the lowest prices "that's not enough," Glass warned, "we need to give the best value. The bitterness of poor quality lasts long after the sweetness of low price is gone," Glass said.

Wal-Mart plans to add 125 to 135 new stores this year, 20 Sam's Wholesale clubs and another hypermarket. Sales in the year ended Jan. 31 were $15.96 billion yielding $627.6 million in profits.

For the first quarter, ended April 30, sales increased 33 percent over the previous year to $4.28 billion.

But the facts and figures, weren't the main attraction at the extravaganza. Walton may have given up the job of ceo but he's a long way from giving up the microphone. When cfo Paul Carter said Wal-Mart is seeking over $20 billion in sales this year, Walton was on his feet in a flash. "Can we do $21 [billion]?" he challenged the associates.

"YES WE CAN!," they chanted back to the chairman.

The Up Market Seeks Discounters For Housewares, Small Appliances

(Continued from page 3)

pendent children, and an income over $50,000;

- Mid-life households, where the head of the household is between 45 and 64, with no dependent children, and an income over $45,000;
- Old households, which have a head of household 65 or older or retired and an income of $22,500 and over.

Demographically, these consumers are more likely than other groups to be married; in dual-income families; employed full time; and hold professional occupations.

Not surprisingly, these consumers are also more likely to frequent department and specialty shops. But they also show a consistent preference for off-price outlets, according to the survey.

Up Market consumers shop at off-price stores for women's casual apparel more than the group identified as "all others," or everyone other than up market consumers.

The same is true for men's casual apparel and boys' and girls' clothing, housewares, and domestics.

The survey asked consumers where they shop for 23 merchandise categories.

In this survey, discounters were generally listed as the third choice among upscale consumers after department stores and national chain department stores.

Up Market consumers listed discounters as either the first or second preferred place to shop in eight merchandise categories. These include: children's shoes, housewares, domestics, small appliances, electronics/home entertainment, sporting goods, costume jewelry, and non-electric toys and games.

Among other types of consumers, discounters fared better, coming in first or second in 15 merchandise categories: infants' apparel, women's casual apparel, men's casual apparel, boys' and girls' apparel, children's shoes, housewares, home furnishings, domestics, small appliances, tableware, sporting goods, cosmetics/fragrances, costume jewelry, and non-electric toys and games.

Mars Realigns; Seeks Improved Profits, Growth

(Continued from page 3)

uidation of Big Value, the closing of the Gaynes store and the integration of the remaining Gaynes unit into the Mars operation, in addition to the closing of the three Mars stores and the sale of its apparel department to the Masters organization, which will operate apparel as a leased department in Mars Stores.

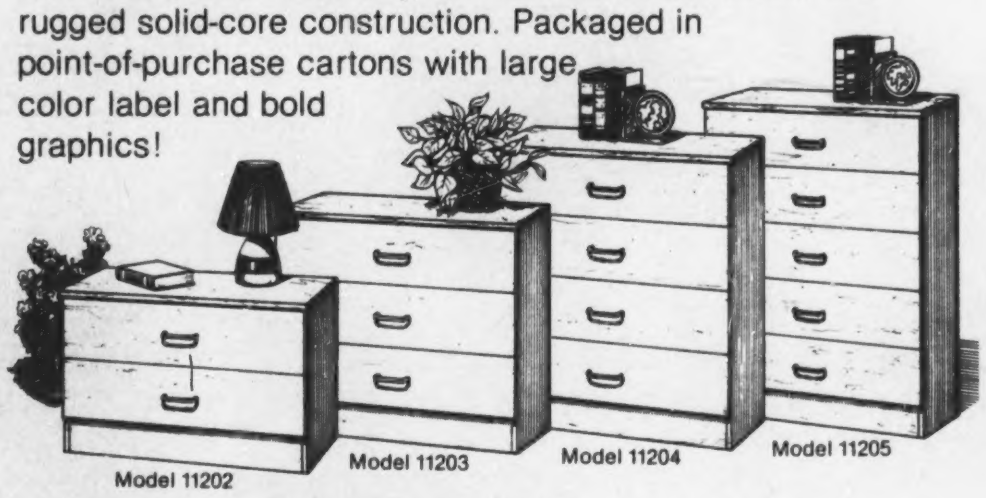
Mars is now an 18-unit discount retailer operating in New England with projected annual sales of $100 million.

Last year, Mars reported a net loss of $7,231,021, or $3.30 a share, on sales of $106,987,000 for the fiscal year ended Jan. 30, 1988. Sales for the year were down 6.5 percent, or $106,987,042 from 1986.

These results put Mars in default under its credit agreement. But the discounter won waivers from its banks and for the balance of the year will be working under revised financial covenants which it is required to meet. The changes were based on Mars' projected operating results and an anticipated first quarter loss, according to a statement issued by Mars.

In prepared comments released by Mars, Kwasnick noted that the company is reducing inventories to free up working capital, de-emphasizing certain, highly-competitive, low-margin departments and focusing on home furnishings and housewares.

Despite the high cost of restructuring the company, Mars reported that at year-end it had approximately $4 million in equity, a sum it feels is sufficient to support operations.



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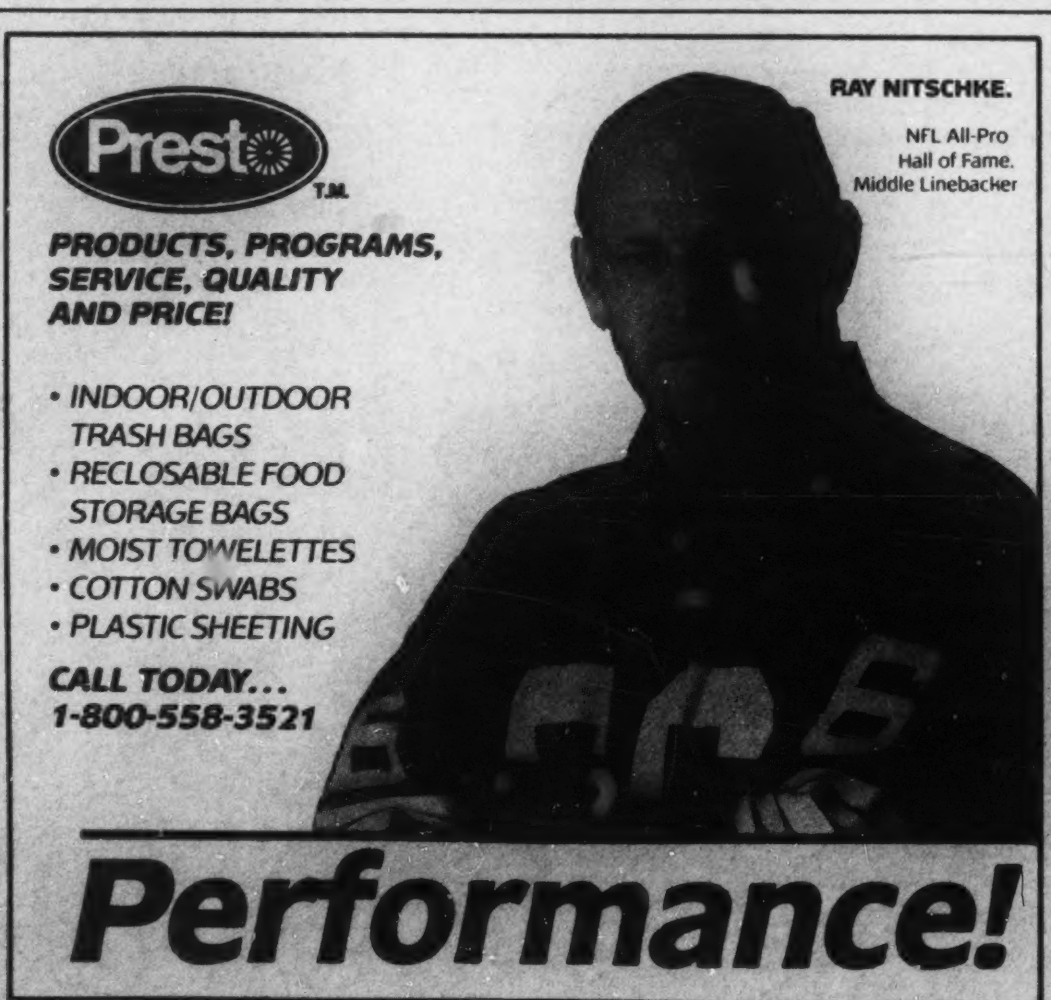

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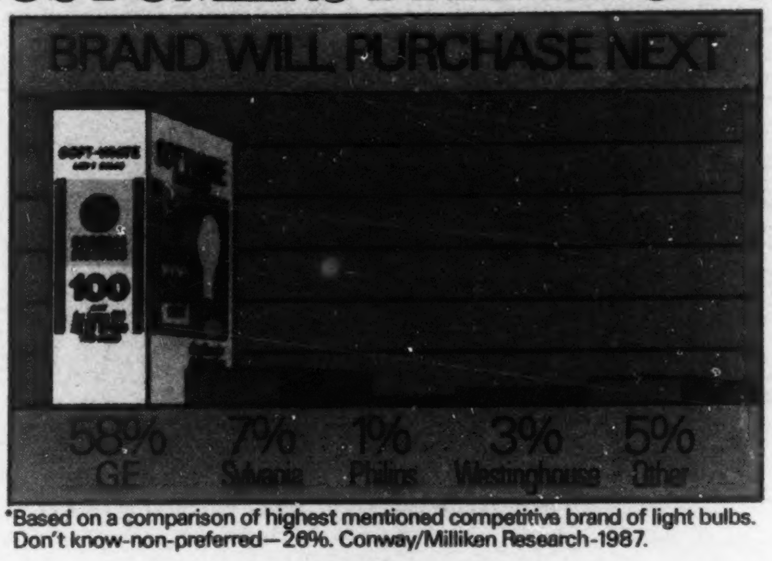

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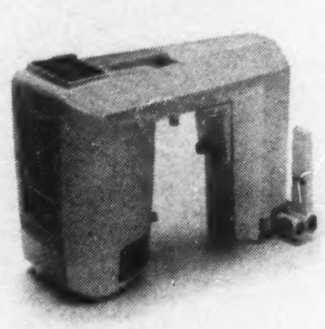

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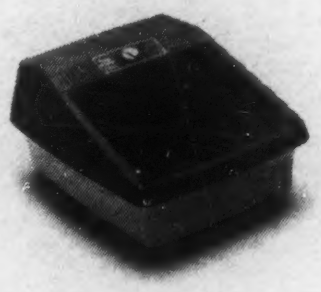

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ShopKo to Debut Two Midwestern Hypermarkets Next Y ear

(Continued from page 1)

chandise mix while sourcing food from its parent Super Valu Stores. Super Valu, a diversified food wholesaler, already supplies groceries to Biggs, along with owning 10 percent of the 4-year-old Cincinnati hypermarket venture.

The discounter, which set up a separate division to operate Twin Valu, disclosed its hypermarket plans in zoning hearings before the planning board of the two cities. It was represented by Hal Reisenfeld & Co., a Cleveland real estate broker that helped in the site selection.

At 180,000 square feet, Twin Valu will be smaller than the 200,000-square-feet-plus hypermarkets run by Hypermart USA, Biggs or Carrefour. It won't include a number of the specialty stores found in these hypermarkets, but will feature a full-service, in-store bakery, fresh meat and fresh fish departments and a pharmacy and drug store.

However, Twin Valu will use an upscale presentation similar to that of Biggs and Carrefour, rather than the warehouse-type fixturing found in Hypermart USA. The Twin Valu already under construction in Cuyahoga Falls will be adjacent to two shopping centers and near a Zayre.

Twin Valu will be ShopKo's first venture into Ohio. Its discount stores are in 11 upper Midwest and Pacific Northwest states ranging from Michigan, west to Washington state, and south to Nevada and Utah.

CES: Personal Video, DAT, WPs

(Continued from page 1)

stir up some excitement at retail. Other hot products: a 3-D television from Toshiba, a "phone-home" VCR and compact VCR/television combos from Panasonic, a host of inexpensive personal word processors from Smith Corona and Panasonic, and miniature LCD color televisions from Sharp and Sony, both featuring vastly improved pictures.

On the floor, the biggest news involved Teac's announcement that it would break the DAT ice by importing a handful of $6,000 DAT recorders by early July. The record industry, through the RIAA, has threatened to sue the first company to bring the recorders to market.

Audio and video tape vendors who have not already raised prices probably will in the near future, in reaction to the falling dollar and decreasing profitability of the products at wholesale and retail. "Consumers understand that we have to make a fair profit [on videotape]," one vendor said. "We haven't been."

Although the show's organizers announced daily attendance figures in excess of 90,000, most retailers and many suppliers called traffic "light" and several hinted that the days of the summer CES days are numbered.

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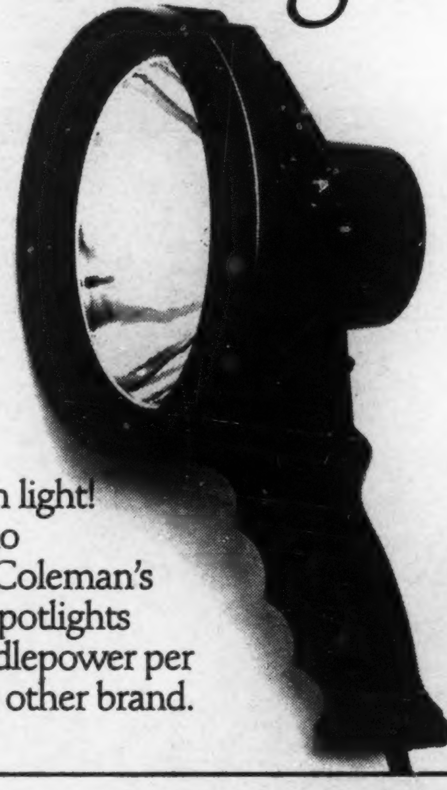

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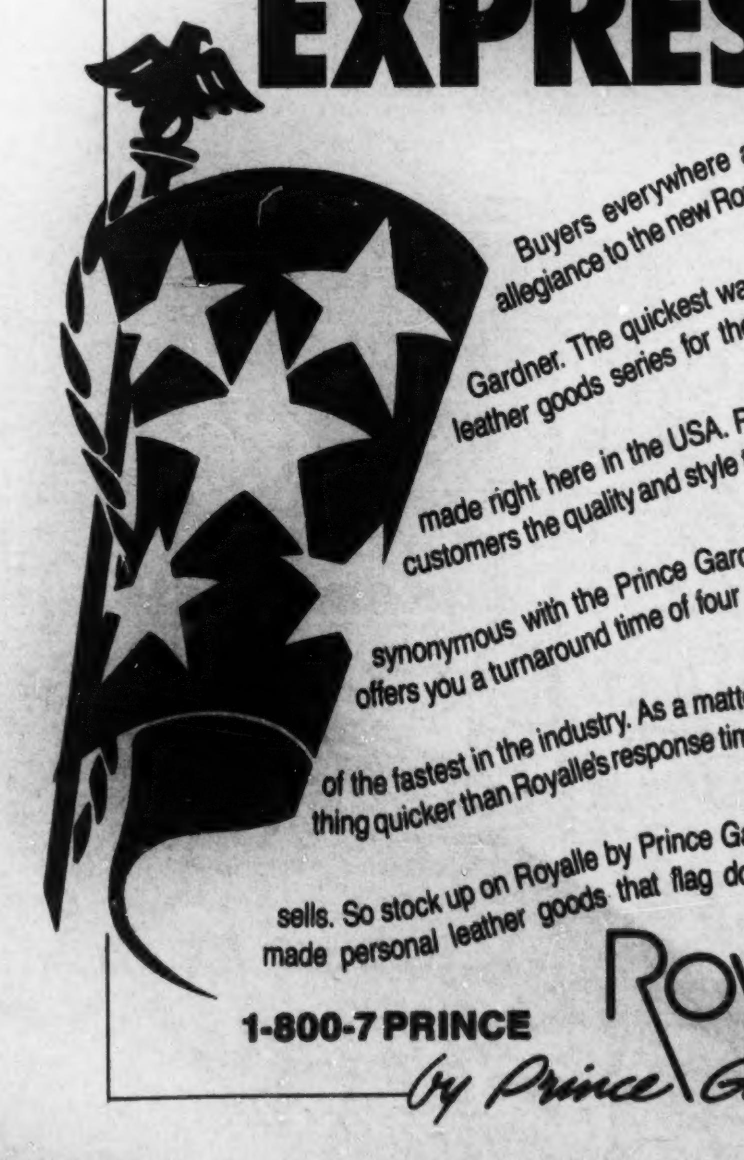

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Teleshopping Field Slimming Down

(Continued from page 3)

tire of Telaction, a cable-TV interactive shopping network, both predicted dramatic growth in the field.

GTE's Main Street interactive shopping system was notable by its absence. GTE has maintained a very low profile for its system, which is being tested just outside Boston in Newton and reportedly cosmetically resembles a slightly upscaled Telaction system. Some GTE representatives did attend the show, however, and ferried selected retailers to Newton for a quick demonstration at a GTE site.

Prodigy is now available in Atlanta, San Francisco and Hartford, Conn. The company is in the process of sending out a "blanket mailing" to PC owners in the three cities, offering the service (and six password/ID packages) for $9.95 a month.

Prodigy offers a host of services, including home shopping, a customized news and weather service, 15-minute-delayed stock quotes on selected (by the customer) stocks, and extensive advice "columns" written by national authorities on subjects ranging from home repair to personal finance to travel, sports and fitness. Prodigy plans to offer groceries, airline and tour information, with stockbroker services available in the near future.

Smith said the system has "several thousand" subscribers at present, with about 40,000 projected for year-end. He refused to release specific subscriber totals, saying he didn't want to get involved in a "numbers game."

MacIntire said that Telaction, which offers Chicago-area cable subscribers grocery and general merchandise selections, will expand into Canada in the near future.

During a live Telaction demonstration, MacIntire noted that the system would be adding significantly to its retailer base in the near future. "Retailers have to get in now. There is so much to learn, and retailers who commit early will have insight into and an inside track on subsequent developments," he said.

Sears Offers Transactional Kiosk

(Continued from page 1)

directly to the recipient.

Saunders disclosed Sear's Gift Sender plans at the Electronic Shopping '88 conference here. He also premiered the Sears Home Lighting Center, an interactive device that will be placed in several Sears hardware departments to effectively expand the average sku count in lighting hardware from 175 to 650.

Although the two devices look very much alike, there are significant differences. The Gift Sender is a fully-transactional device, displaying about 100 sku's of gift merchandise and allowing a customer to select, pay for, and ship a gift anywhere in the United States. The system will even allow for personal, hand-written notes and, if a full shipping address isn't known, will make sure it reaches its destination.

The Home Lighting Center, on the other hand, is basically a very sophisticated video catalog, rather than a true interactive terminal. The initial monitor display asks shoppers to select a specific type of indoor lighting by touching an appropriate picture. The kiosk then shows a variety of products, four at a time. If the customer wishes to find out more about any of them, he or she simply touches the appropriate picture, which produces a close-up photo, information, price and a catalog number. The customer then picks up a red service phone next to the kiosk to actually place the order.

The Gift Sender is used in the same way through the actual selection. However, customers may then pay for the merchandise by slipping any of four major credit cards (Visa, MasterCharge, American Express or Discover) into a slot. The kiosk will then ask for shipping and message information, which the customer enters through a keyboard beneath the monitor.

Sears installed the first Gift Sender in its Chicago corporate headquarters and in Allstate Insurance's headquarters in Northbrook, Ill. It plans to roll them out to other Sears stores, train stations, large office buildings and "other places you might find an ATM." All orders will be shipped within 24 hours, Saunders said.

According to Saunders, Sears sees this technology as the wave of the future. "One in 3 Americans now uses ATMs," Saunders said. "The potential is the same for electronic retailing. Consumers today have more money, but far less spare time, than in the past. As a supplement to traditional retailing, interactive kiosks fill a distinct need."

Saunders also noted that, to date, results from home shopping networks and services like Telaction and QVC have been encouraging. Sears is one of the retailers on Telaction, while it has an equity investment in QVC, which sells selected Sear's products.

Sears is also involved in two start-up home shopping operations, Prodigy, which is a computer service, and Main Street, which is an interactive cable TV service.

"QVC had $112.3 million in first year sales, a record for a start-up company," he said.

Kiosks: Mixed Outlook

(Continued from page 3)

However, most of those sales were in unusual sizes and colors, indicating that the 3 percent might well have been incremental sales. "We found that customers liked the machine; we couldn't even talk them into saying something negative," MacDonald said. The machine drew business from competitors, but most people were impressed with it as an information source.

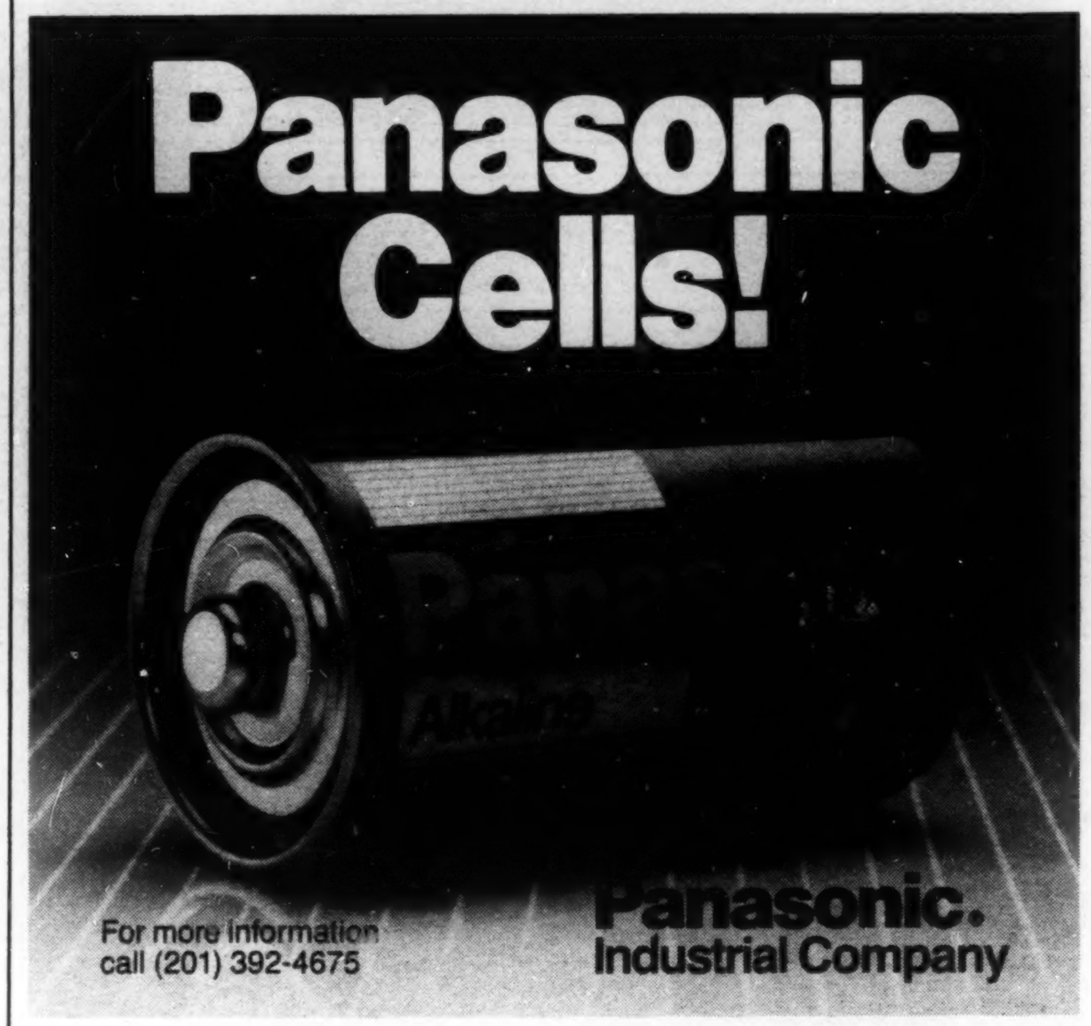
The JeansScreen also accounted for some $3,000 per square foot annualized, a figure sure to warm the frostiest retailer's heart. The catch, MacDonald said, is that it has to do that much to make it worth the time and trouble. "We're a department store," he said, "and we had major problems in accounting for inventory that never actually came into the store. We had to go to manual tracking."

That, in turn, led to another problem—exposure to possible shrinkage. "That's the big no-no in retailing. We can't take a chance on creating a hole in our system," he said.

Other problems, according to MacDonald, included customer complaints to The Broadway about Levi's shipping, which made the chain look bad, and a sharp decline in sales, as saleshelp originally trained on the system were promoted or resigned.

Overall, MacDonald said that interactive video seems to have a place in the department store business as an information-giving device, not as a transactional system.

Other developments at Electronic Shopping '88 included an announcement that ByVideo, which last year developed 20 interactive kiosks for cataloger Best Products, will be introducing an interactive kiosk system in PACE warehouse clubs on a test basis. ByVideo also developed the kiosks Sears introduced to eight of its home lighting departments this month.



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Ames' new prototype accents fashion presentation, with the addition of carpeting and focal walls to apparel areas, and clothing divided into tops and bottoms to emphasize depth. (DSN photo)

New Ames Prototype Accents Productivity

By Peter Hisey

WINSTED, Conn. — Ames Department Stores unveiled its new low-cost prototype format, slated to be utilized in up to 40 stores by 1990, last month in this tiny northwestern Connecticut town. The operative word for the new store is "functional." Although carpeting has been added to apparel departments and focal walls are prevalent, the remodeled unit retains a

(Continued on page 174)

Harts Tests Hyper-Marketing With Rollout of Big Bear Plus

By Mary Ellen Kelly

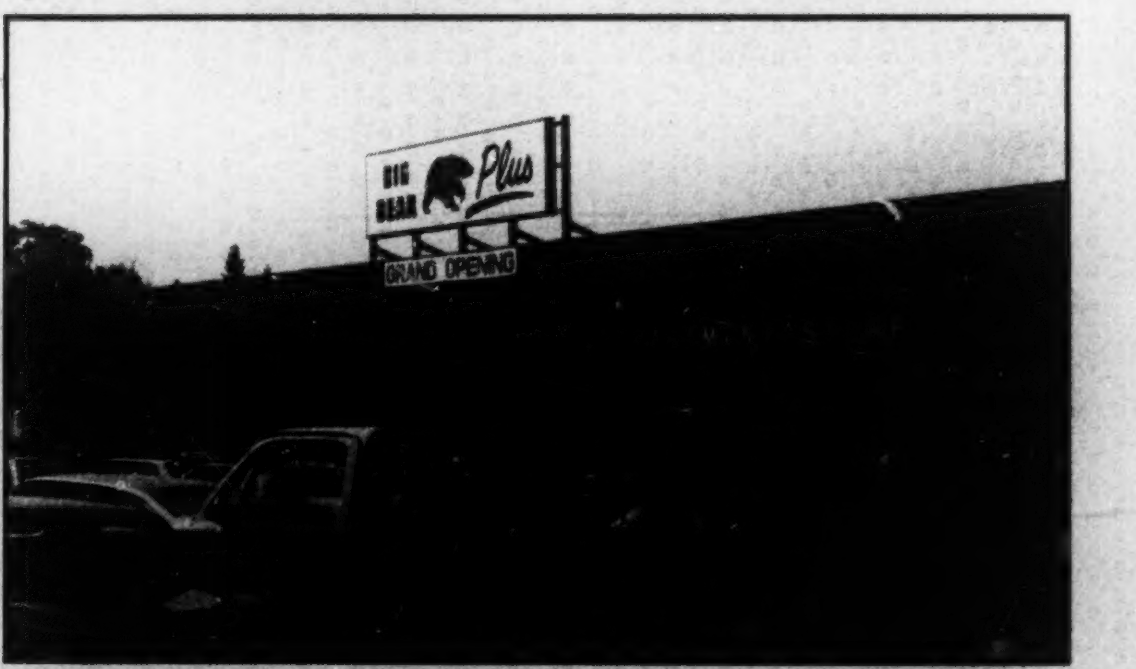
WINTERSVILLE, Ohio — Big Bear Inc., parent of Harts discount stores, took a big step toward hypermarket retailing last month when it opened two combination food and general merchandise stores called Big Bear Plus here and in Bridgeport, Ohio.

The next step toward a finished prototype will be a third Big Bear Plus store, scheduled to open in Wapakoneta, Ohio, this fall. At 75,000 square feet, the Wapakoneta store will be considerably smaller than the 140,000-square-foot and 100,000-square-foot units just opened.

However, the Wapakoneta store will be equipped with new fixtures and signage, only portions of which are now in the Bridgeport and Wintersville stores. The latter two stores will conform to the prototype within the next year.

"The only defense against a hypermarket is another hypermarket," said David Godfrey, Harts vice president and general manager during an interview at the Plus store opening in Wintersville. Hypermarkets appear to be the new trend in retailing, he explained, and since Big Bear

(Continued on page 172)



Discounter Harts and its parent, Big Bear supermarkets, opened their first combination general merchandise and food stores, Big Bear Plus, in Wintersville and Bridgeport, Ohio. (DSN photo)

Top 100 Discounters Post 15% Sales Gain

Nationwide DSN Report

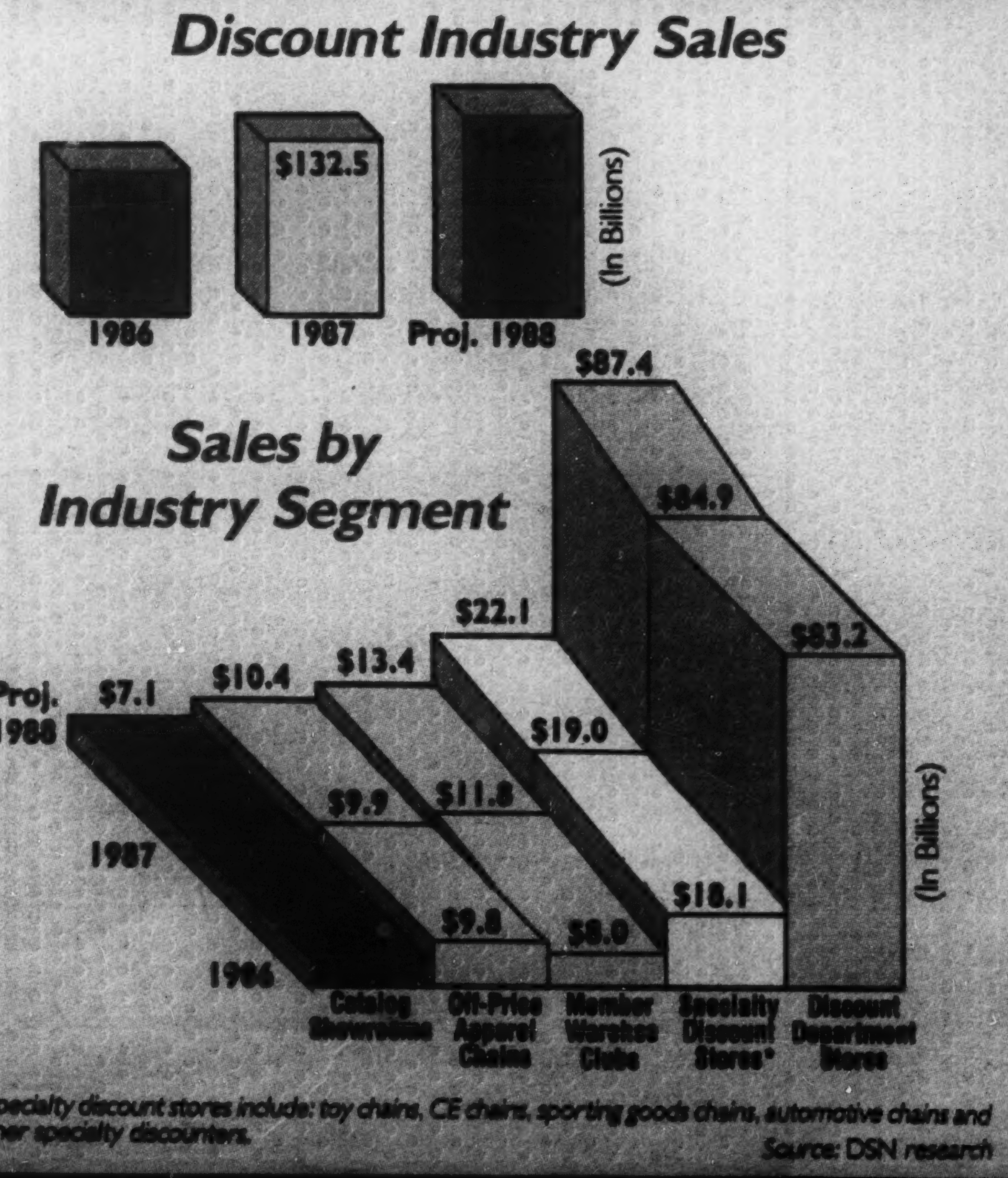
The Top 100 discount retailers increased their sales 14.9 percent to nearly $109 billion in 1987, accounting for about 82 percent of total discount industry volume last year.

The total discount industry—including discount department stores, catalog showrooms, membership warehouse clubs, off-price apparel chains and specialty discounters—is projected to register a 6 percent sales gain to $140.4 billion this year, according to *DSN*.

Data collected by *DSN* revealed:

- The Top 100 powerhouse chains last year added 838 stores for a total of 20,603, a gain of 4.2 percent.
- The Top 100 discounters control more than 650 million square feet of retail space in the United States.
- Specialty chains will experience the highest dollar and percentage growth of any segment—a 16.8 percent jump to $22.1 billion in sales.
- Warehouse clubs are the second-fastest growing segment, projected to top $13 billion by year-end.
- Sales grew by 2.9 percent in the discount department store segment, but large chains like Wal-Mart and Target outpaced industry growth by a wide margin.

Part II: Merchandising Analysis will appear in *DSN*'s July 18 issue.



*Specialty discount stores include: toy chains, CE chains, sporting goods chains, automotive chains and other specialty discounters.

Source: DSN research

Wal-Mart to Test Home Computers

Seeks to Boost Home Office

BENTONVILLE, Ark. — Wal-Mart is testing a low-end Tandy computer in about 50 of its more rural Sunbelt stores, a Tandy spokesman announced. The test was initiated in early June and will run several months, and is being conducted in "secluded area" stores in Texas, Louisiana, Arkansas and possibly Mississipi, the spokesman said.

The retailer is reportedly also planning to test more sophisticated computer systems from Blue Chip and two other manufacturers during the back-to-school season, according to Blue Chip president John Rossi. That test will probably involve fewer but more urban stores, reportedly 10 of Wal-Mart's 110 "collegiate" stores located in or in close proximity to major college towns. Whether the test will involve all three computers at 10 stores, or will place each in 10 different stores each is unclear.

Tandy's 1000 SX, modified for Wal-Mart (a second floppy disk drive has been added to the basic package that Tandy sells through its Radio Shack stores), will receive a lot of exposure over the next few months in markets never reached by Radio Shack. The 50 stores were chosen by Wal-Mart with the provision that they not compete with Radio Shack. "This will give us more market penetration," the Tandy spokesman said. "This should work out very well for both of us."

(Continued on page 174)

IMRA '88: Convention Coverage from Nashville

Discounters Favored For Microwave Cookware

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MARKETWATCH

United Liquidates Hard Lines Inventories

HOUSTON — United Jewelers & Distributors, which filed a Chapter 11 plan last month, expects to liquidate its jewelry and hard lines specialty store business by fall, paying back about 25 cents on the dollar to holders of about $36 million in claims. The Chapter 11 plan, filed in the U.S. Bankruptcy Court for the Southern District of Texas, Houston Division, said the company planned to liquidate its inventories, worth an estimated $16 million, raising $5 million to $7 million from the sale of merchandise, fixtures and equipment. United, which had 54 stores at the start of the year, currently operates one unit in New Orleans and five in Houston. The largest unsecured claim is for $26 million from Gordon Jewelry, which had sold United's assets in March 1987 to BCS Holdings, which was formed specifically to buy the former catalog showroom chain.

Price Club Updates Expansion Plans

SAN DIEGO — Price Club has announced updated expansion and relocation plans for the remainder of this year and early 1989. The company will open a Glendale, Ariz., warehouse this August as scheduled, but summer openings for sites in Corona, Calif., and Hampton, Va., have been postponed until fall, and one in Babylon, N.Y., will now open this winter instead of this fall. At the same time, the 38-unit chain announced net earnings grew 26.6 percent to $18.7 million on a sales increase of 27.5 percent to $942 million for the third quarter ended June 5, 1988. Comparable warehouse sales rose 4.51 percent. In the first nine months, sales totaled $3.07 billion vs. $2.45 billion in the same period last year, while net income for the 40 weeks was at $70.7 million vs. $54.2 million last year.

Rebounding Ross Set to Open Six Stores

NEWARK, Calif. — With its financial position improving, off-pricer Ross Stores, based here, is set to open six new stores this summer. In keeping with a slowed growth posture adopted last year that emphasizes current markets, the new stores will all be in existing Ross territory. Four stores are slated for California—in Orangevale, Clovis, Santa Maria and Lancaster—while one will be in Plantation, Fla., and another in Fairfax, Va. The stores will open by the beginning of August and will be backed by chainwide advertising.

The Wholesale Club Plans Stock Buyback

INDIANAPOLIS, Ind. — The Wholesale Club plans to buy back on the open market $250,000 worth of its common stock (or about 1 percent of its outstanding shares). The company said its shares at current market prices (of around $6) "is an attractive investment" and the stock would be used for general corporate purposes, including contributions to the employee profit sharing plan and exercise of stock options.

Teleshopping Gains Status at Ad Group

NEW YORK — The Cabletelevision Advertising Bureau has recognized teleshopping as an integral part of the industry by listing six video retailing services in its "Cable TV Facts '88" booklet. The six shopping services listed in the directory section are CVN, The Fashion Channel, Tel-Shop, Home Shopping Network, QVC and Telaction.

Evans Adds Third Store This Year

ROCKVILLE, Md. — Evans Distributors and Jewelers will open a 40,000-square-foot showroom in the Tysons Corner, Va., suburb of Washington this fall to hit a total of nine units, a 33 percent increase in its store count this year. The cataloger previously unveiled similar stores in Herndon and Dale City, Va. Evans will be in the Pike 7 Plaza in Tysons Corner, a market that is already home to Best Products and W. Bell showrooms.

Save-Rite Unveils Its Seventh Showroom

WOONSOCKET, R.I. — Save-Rite will open a 22,000-square-foot showroom, its seventh unit, this fall in the K mart shopping center in Rayham, Mass. The cataloger this spring opened a similar store in the K mart center in Milford, Mass.

Dress Barn Inks Deal with Shoe Chain

STAMFORD, Conn. — Dress Barn, the woman's off-pricer based here, is seeking to expand its retail base by launching leased apparel departments in 22 Carnival stores during the next three months. Dress Barn, which currently operates 325 units, has reached an agreement with Carnival, the Evansville, Ind.-based off-price women's shoe retailer, that will have Dress Barn operating a 4,000-square-foot area in each of the 22 units. The leased areas will offer the same products and selection as Dress Barn units, which also average 4,000 square feet.

Fred Meyer Enters Northern Calif
With Freestanding Jewelry Store

By Pamela Krein

Fred Meyer JEWELERS

Fred Meyer will make its long-awaited entry into the Northern California market by opening a jewelry store, rather than a full-line superstore, in Chico in the Sacramento Valley. (DSN photo)

PORTLAND, Ore. — Fred Meyer will make its first entry into California this August with the opening of a fine jewelry store in a new regional mall in Chico.

The announcement was made last month at the retailer's annual shareholders meeting by chairman and chief executive officer Frederick Stevens.

Fred Meyer's entry into Northern California has been rumored for some time. Area retailers had told *DSN* that the superstore operator was looking for sites for its huge food/apparel/general merchandise stores that measure up to 200,000 square feet.

Instead, Fred Meyer will use its fine jewelry store arm to make its splash in the Golden State. While the chain may still be looking for large sites, the summer opening of its 1,500-square-foot fine jewelry store will give Fred Meyer its first presence in the state. A second jewelry store is expected to open sometime this fall in Eureka, Calif.

Fred Meyer's unique vertical structure—whereby each of its up to 11 departments operates individually as a profit center—has allowed the chain to branch out a given category on a freestanding basis.

Continuing this entrepreneurial atmosphere is one of Stevens' priorities: "Fred Meyer will continue to be in the forefront of retail development whether it be in the Pacific Northwest or the United States."

Stevens, formerly executive vice president of specialty retailing at K mart, debunked Fred Meyer's "unfounded" reputation as a cautious and slow-moving retail giant. He said the chain intends to open two large multi-department stores and at least seven specialty stores this year, and is currently in the midst of its most ambitious remodeling rate for existing stores.

To support this expansion, Stevens said the real estate and construction staff has been increased, and a strategic marketing group has been appointed to improve profitability and coordination of departments and divisions.

Stevens also discussed Fred Meyer's competition. Although Stevens did not specify any one retailer, Fred Meyer's territory is being invaded by Target this month and ShopKo in the fall.

Stevens conceded that every retailer is effected when a new player comes to town and blitzes the market with advertising, however, he said past results have shown that Fred Meyer usually wins back any lost customers and gains new shoppers as well because of its one-stop shopping appr

Stevens left K mart to join 100-store Fred Me replacing Oran Robertson, who retired from day-to-day duties, but remains chairman of the executive committee.

American Wholesale Files Suit, Chap. 11

RICHARDSON, Tex. — American Wholesale Club, the two-year-old membership warehouse chain based here, filed suit on June 24 in the U.S. District Court for the Northern District of Texas against Wal-Mart Stores and its Sam's Wholesale Club, and announced it will undergo Chapter 11 reorganization.

American's suit alleges antitrust violations and slander claims against Sam's and seeks actual and exemplary damages in excess of $90 million. Jeffrey Zisk, chairman, said the action is based upon damages resulting from two years of alleged anti-competitive activities by Wal-Mart.

Specifically cited in the suit is reference to a public address announcement allegedly made on April 22 in a Plano, Texas, Sam's that falsely said American had gone bankrupt, creating adverse reactions from customers and suppliers of American, which operates a unit within a mile of the Sam's.

Wal-Mart declined to comment on the suit. American's two clubs in the Dallas area will remain open for business during the reorganization.

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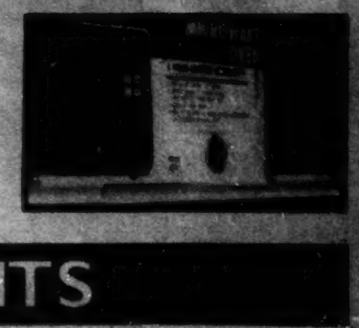

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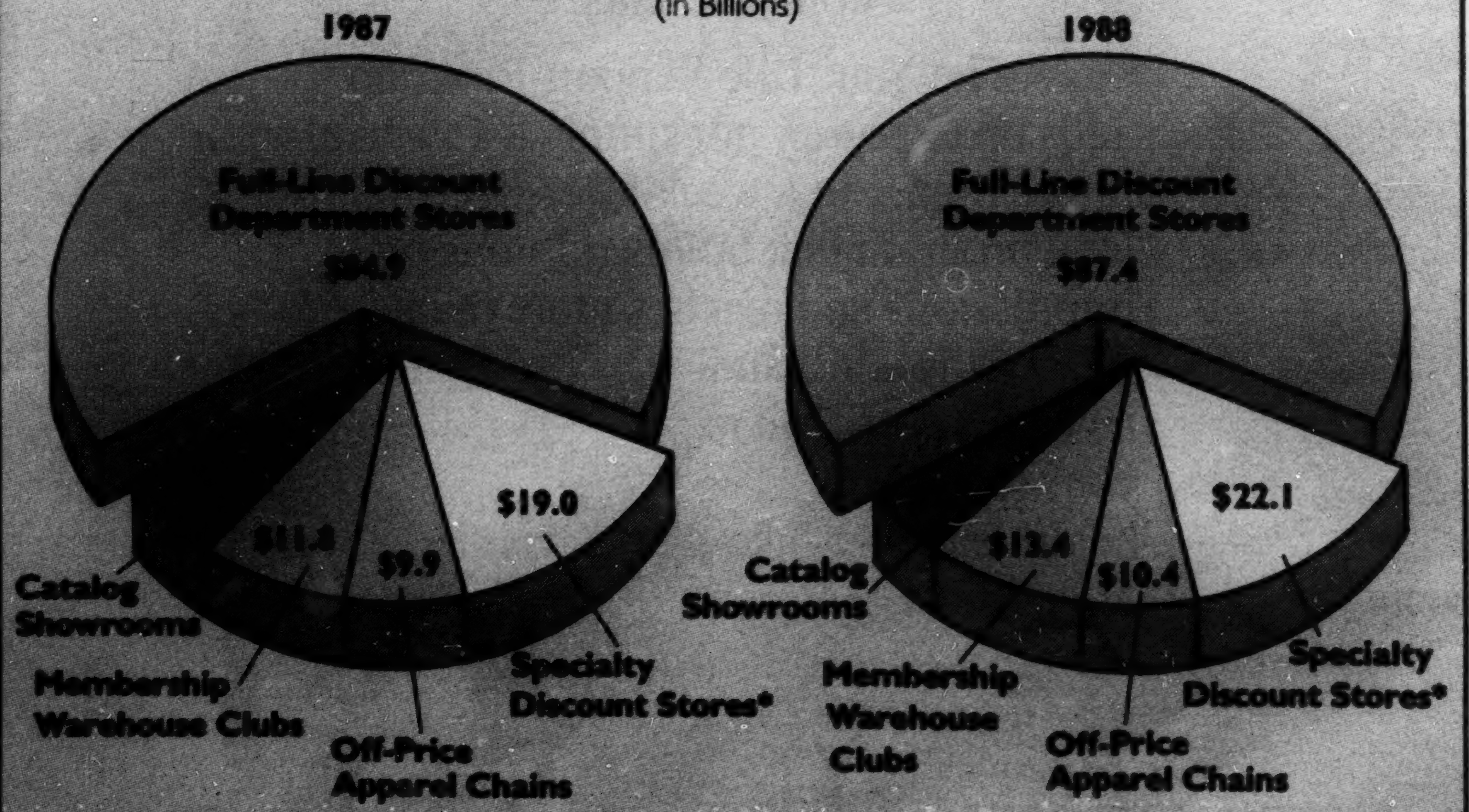
Annual Industry Report

'88 Discount Sales to Top $140 Billion

The biggest news in discount retailing last year occurred in late December when Wal-Mart opened its first Hypermart USA in Garland, Texas. (DSN photo)

Discount Industry Segment Sales

(In Billions)



Discounters will ring up $140.4 billion in sales this year, almost a 6 percent increase over 1987.

*Specialty retailing includes: toy chains, CE chains, sporting goods chains, automotive chains and other specialty discounters—stationery/home office megastores ($400 million), deep discount drug stores ($2.0 billion), etc.

DSN's Annual Discount Industry Report

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Part II: Merchandising Analysis

Coming in the July 18 issue of DSN

Specialty Segments, Clubs Boost Discount Sales

By Kenneth M. Chanko
Nationwide DSN Report

Spurred by robust sales increases in most distribution segments and explosive double-digit sales jumps at specialty chains and membership warehouse clubs, discounters will top $140 billion in sales for the first time in 1988.

The discount industry as a whole will record a just-under 6 percent increase to $140.4 billion by year-end, and the full-line discount department store, still the dominant segment, will increase by 2.9 percent, according to *DSN*'s Annual Report on the Discount Industry.

This year's *DSN* annual state-of-the-industry report compiles 1987 sales and earnings (where available) figures on the top 100 discounters in the country, projects total 1988 industry sales by segment and merchandise category and profiles the top 20 chains. This year, however, *DSN* also provides expanded coverage on the nation's fastest-growing chains, as well as first-time census roundups of the deep discount drug, home shopping and hypermarket distribution segments. Also included this year is a comprehensive rundown of all major industry mergers and acquisitions over the last 18 months, along with the top management moves during the same period.

This year's survey reveals that specialty discount stores will experience the highest dollar and percentage growth of any segment—a 16.3 percent jump, or a $3.1 billion increase, to $22.1 billion in sales this year. Warehouse clubs are the second fastest growing segment, projected to top $13 billion in sales by year-end with a 13.6 percent sales increase. Catalog showroom sales will inch ahead by 2.9 percent—the slowest percentage growth of any segment—to $7.1 billion. And off-price apparel chain sales will grow by 5.1 percent, topping $10 billion in sales for the first time.

In 1988, general merchandise discount stores will account for 62.3 percent of the discount industry's total sales volume. Last year, full-line discounters represented 64.1 percent of total business. And the year before that, in 1986, discount department stores had a 66 percent share of the total discount universe.

This share-of-pie drop for the general merchandise discount store is reflected in *DSN*'s top percentage-sales-growth-by-chain and top dollar-sales-growth-by-chain charts. In the former, there were no general merchandise discount store chains in the top 10, and only one in the top 20. In the dollar sales growth chart, just three of the top 10 were full-line discounters (last year there were five in the top 10). Of the 40 general merchandise discounters in this year's top 100 chart, 20 of them dropped in ranking.

Highlights of the top 100 chart also include:

- Sam's and Meijer broke into the top 10 for the first time (Meijer mostly because the discounter's grocery sales from its hypermarket-type stores were included this year);
- Bradlees dropped out of the top 10 (and is likely to fall further if announced cutbacks are carried out);
- Venture fell from the top 20;
- The big ranking gainers (a 10-notch jump or more, not including chains that showed gains because of major acquisitions or the recent inclusion of food sales in results) were The Wholesale Club (90th to 69th), Warehouse Club (91st to 77th) and Sportmart (98th to 81st);
- The big losers (same qualifications as above) were OTASCO (55th to 68th), Consumers Distributing (U.S.) (52nd to 65th), S.E. Nichols (54th to 64th), Crazy Eddie (48th to 60th) and Heck's (33rd to 48th).

Hypermarkets, Mergers Top Newsmakers

Nationwide DSN Report

The debut of hypermarket discounting, merger mania among the nation's top retailers and the relatively quick recovery of most discounters from the October stock market plunge were among the top industry news stories over the past 18 months.

Wal-Mart opened two Hypermart USAs recently (*DSN*, Jan. 18, 1988, and Feb. 15, 1988); Carrefour opened its first in the United States (*DSN*, Feb. 15, 1988); and K mart announced its first hypermarket opening for later this year (April 25, 1988). For more on hypermarkets, see page 124.

The biggest merger/acquisition/LBO news was Campeau's purchase of Federated, which owns Gold Circle (the chain's future is clouded; *DSN*, March 14, 1988) as well as other specialty discount chains. Also, Bradlees went private (it will lose 58 units ; *DSN*, June 20, 1988) and K mart acquired Makro (*DSN*, March 14, 1988). For more on acquisitions, mergers and LBOs, see page 47.

Discount stocks plunged 29.2 percent for the two weeks ended Oct. 23, 1987, which encompassed Black Monday, Oct. 19. However, the discount industry recovered nicely from the plunge. In September before the market crash, the *DSN* index stood at 1,668.48. It dropped to 1,149.10 by the end of October. However, by early March the index had rebounded to 1,322.30. As of early June, the index stood at 1,344.91.

Briefly, the other major news stories of the past 18 months included:

- Sam Walton's eventual successor at Wal-Mart came into focus when David Glass was promoted to chief executive officer of the fast-expanding discounter (*DSN*, Feb. 15, 1988);
- K mart, in addition to acquiring a warehouse club chain and announcing its hypermarket entry, further diversified by announcing a specialty sporting goods warehouse (*DSN*, Feb. 1, 1988) and a home office specialty operation (*DSN*, March 28, 1988);
- Wal-Mart, in addition to opening two hypermarkets, also weighed in with its SuperCenter store, another general merchandise and supermarket hybrid (*DSN*, March 14, 1988);
- Store environment upscaling continued in a big way, especially in the apparel departments of the full-line discounters and among the off-price apparel chains. Several one-price apparel chains opened their first units and others continued to expand (*DSN*, March 14, 1988);
- Catalogers rebounded, led by the turnarounds of Service Merchandise and Best Products.

Top Discount Execs Play Musical Chairs in Changing Market

By Donald Longo
Nationwide DSN Report

Mergers, acquisitions, restructurings, retirements, and even deaths combined to cause substantial turnover in the executive suites of many of the nation's largest discount retailers.

In the past 18 months, the discount industry has been saddened by the deaths of such industry stalwarts as Herbert "Hank" Goldberger, founder of Hills Department Stores, Max Feldberg, co-founder of Zayre Corp., and Stanley Seidman, president of cataloger chain Consumers Distributing (U.S.).

1987 also marked the exit by retirement of such industry luminaries as Harold Frank, Bradlees chairman and chief executive officer; Bernard Fauber, K mart's chairman; Oren Robertson, chairman of Fred Meyer; Malcolm Sherman, chairman of Zayre Stores; Herb Gilman, chairman of Ames Department Stores; and George Seedman, who retired and sold the TSS-Seedman's chain he founded in the early 1920s.

Other top industry executives like Jack Shewmaker, former vice chairman and chief financial officer of Wal-Mart and Raymond Wysocki, formerly vice president, general merchandise manager at Zayre Stores, resigned their posts before or after major restructuring by their firms.

And, that doesn't count the thousands of middle level retail executives and managers laid off during a year of stepped up merger and acquisition activity.

One chain afflicted with the M&A fever was Bradlees, the Braintree, Mass.-based discount store division of Stop & Shop. About 7,500 jobs will be eliminated when the discounter sells off its 58-store Southern region to pay off some of the $1.4 billion debt incurred when its parent went private to fend off a hostile takeover attempt.

The job of president, vacated in July 1986 by Harry Kohn, who went to Stuart's Department Stores, remained open at Bradlees throughout 1987. But the position was filled before the end of fiscal 1988 by George Granoff, formerly Bradlees' executive vice president.

In April when Bradlees chairman and ceo Harold Frank retired, Carol R. Goldberg, president and chief operating officer of Stop & Shop, assumed Frank's responsibilites in addition to her own.

At the nation's largest discounter, K mart, Joseph Antonini, president and ceo, succeeded chairman Fauber, who retired. Fauber remained with K mart as a member of the company's board of directors and as chairman of K mart's executive committee.

Earlier this year K mart split its $3.4 billion specialty retailing division into three separate entities after Frederick Stevens, executive vp, specialty retailing, suddenly resigned to head Fred Meyer, the Portland, Ore., superstore operator.

Stevens was replaced by Larry Parkin, formerly executive vp for U.S. K mart stores, now executive vp for warehouse and grocery operations, a new position. Parkin is overseeing the development of the American Fare hypermarket, scheduled to open in the Atlanta area late this year, Makro membership warehouse clubs, Builders Square home center warehouses, and two new specialty concepts: Office Depot and Sports Giant.

Hills was another chain to get a new chairman. Stephen Goldberger, president and chief operating officer, succeeded his father as chairman of the board on Feb. 1, 1988.

Wal-Mart named David Glass, formerly the company's president, as chief executive officer early in 1988. Although the company denied that any competition was involved, Shewmaker, who many felt was a candidate as Sam Walton's heir, resigned his positions at the same time. Shewmaker has remained with the company as a consultant.

When May Co. acquired Caldor in 1986, it raided Venture's executive suite to overhaul Caldor. It brought in Venture chairman Don Clarke to become chairman and ceo of Caldor and shifted Marc I. Balmuth from executive vice president, Venture, to president, Caldor.

In addition, it made Venture's store operations chief, Michael R. Lynch, Caldor's new vp and director of stores. May also brought in from various department store divisions three other vice presidents: John Cook, cfo; Elliott Kerbis, gmm, hard lines; and James D. Lee, gmm, soft lines.

From an executive standpoint, Caldor is benefiting from the turmoil at Gold Circle. Once part of Federated Stores, Gold Circle is now one of numerous divisions that

(Continued on page 47)

Annual Industry Report Methodology

NEW YORK — *Discount Store News*' Annual State of the Industry Report—Part I was compiled from company annual reports, securities filings and phone calls to more than 125 of the nation's leading discount retailers.

In nearly all cases, sales figures represent total store volume, including general merchandise, apparel and groceries. Sales and unit count figures for K mart, Wal-Mart and Zayre represent discount stores only, excluding specialty divisions.

In order to present the most accurate picture possible of each retail chain's operating results, earnings figures used in this section represent profit or loss from continuing operations, before income taxes and extraordinary items. Only when that information was not available were net earnings figures used.

This year, for the first time, companies on *DSN's* Top 100 ranking are classified by type of retailer, according to the following code:

- DDS: Discount department store;
- CAT: Catalog showroom;
- SPORT: Sporting goods specialty;
- AUTO: Auto aftermarket specialty;
- TOY: Toy specialty chain;
- APP: Off-price apparel chain;
- CE: Consumer electronics chain;
- CLUB: Membership warehouse;
- DOLLAR: Dollar variety chain;
- DRUG: Drug discounter.

Part II—Merchandising Analysis of *DSN's* Annual State of the Industry Report will be featured in the July 18 issue of *Discount Store News*. In addition to an in-depth review of discount department store volume, turns and margins in 13 product categories, the special report will contain reports on discount store penetration by state and rankings of the leading discounters based on several measures of productivity.

Tough Year of Mergers and Acquisitions

Nationwide DSN Report

Through acquisitions, initial public offerings, leveraged buyouts and spin-offs, at least 19 discounter operations wound up with new owners over the past 18 months.

The deals ranged from the $1.19 billion LBO of Bradlees' parent, Stop & Shop Cos., to Maxway's purchase of Danners, which involved the refinancing of about $10 million in debt.

Moreover, additional sweeping changes either remain on the drawing boards or appear to be distinct possibilities in the coming months.

Campeau Corp., for example, is still looking for buyers of the Gold Circle, MainStreet and Children's Place chains it acquired when it bought Federated in a $6.6 billion deal. Gold Circle management has been working on a LBO that would keep the 76-store chain intact. Resignations of key executives, however, have complicated negotiations, prompting speculation that the chain might be sold piecemeal.

As an offshoot of an attempted corporate raid by the Dart Group, the new owner of Bradlees is selling about a third of its stores.

Stop & Shop Cos. Goes Private

To fend off a raid by Herbert Haft and his Dart Group, Bradlees' parent, Stop & Shop Cos., went private this March in a $1.19 billion leveraged buyout. To help pay down acquisition debt, the management since has announced plans to sell the 58 stores in Bradlees' Southern division. Stop & Shop, a supermarket operator, would retain 111 stores of the Bradlees chain it acquired in 1961.

Adding more uncertainty to discount store retailing, May Department Stores (parent of Venture and Caldor), Zayre Corp., and Dayton Hudson Corp. (parent of Target) appear on an investment research firm's list of the 28 U.S. corporations that are most eligible for acquisition or restructuring. Zimbalist Smith, a Greenwich, Conn., firm, selected the corporations in May based on what the firm sees as undervalued stocks.

Undermining May's position, operating profits at Caldor plunged 20 percent more last year to $56 million, less than it earned in 1982. Moreover, operating profits at Venture fell in 1987 by 12.5 percent to $70 million.

Zayre, struggling with its money-losing discount store division, is negotiating with Price Club to sell its BJ's Wholesale Club division, *New York Magazine* reported. BJ's continued to lose money in 1987, Zayre said in its annual report.

Last year, Dayton Hudson survived a Dart Group raid, in part because of last October's stock market crash. In an unusual development regarding one of its numerous acquisition targets, Dart lost about $60 million on the D-H stock it bought when that stock lost half its value overnight.

More typically, Dart paid about $28 a share for a stake in Stop & Shop when it attempted to acquire the company earlier this year. The company's management paid $44 a share for all stock outstanding when it took the company private.

Chain Restructurings Since January 1987

Acquisitions:

Acquiring Chain	Acquired Chain	Price (In Millions)	Number of Stores	Date
Maxway	Danners	NA[1]	18	May 1987
Wal-Mart	Super Savers Wholesale	NA	21	June 1987
C.O.M.B.[2]	Bought out CVN partners	$ 30	NA	August 1987
HCI Holdings	Present Company	23	19	October 1987
Northern Automotive	Auto Works	33	252	January 1988
	U-Save Auto Parts	NA	8	February 1988
	Crown Auto	8	57	March 1988
Nationwise	Guarantee Auto	11	75	February 1988
K mart Corp.[3]	Makro	NA	4	March 1988
Sears, Roebuck & Co.	Western Auto[4]	402	394	April 1988
International Semi-Tech (Far East)	Consumers Distributing (U.S.)	100	85	May 1988
Thrifty Corp.	Pay 'n Save[5]	232	148	June 1988
PACCAR Inc.	Grand Auto	49	107	June 1988
Dart Group[6]	Shoppers Food Warehouse Club	NA	18	June 1988

[1] Deal involved refinancing $9.7 million in debt and infusing $2 million in added capital.
[2] Reorganized as CVN Companies. Bought out half interest of cable affiliates in CVN for $30 million to $50 million in warrants.
[3] Acquired 51% interest.
[4] Includes 116 Tire America and NTW tire stores.
[5] Includes 37 stores of Bi-Mart and III Pay 'n Save drug stores.
[6] Bought 50% interest.
NA—not available

Leveraged Buyouts, Initial Public Offerings, Spin-Offs:

Chain	Action	Price (In Millions)	Number of Stores	Date
Zayre Corp.[1]	Spun Off T.J. Maxx, Hit or Miss chains	$ 202	687	June 1987
Hills Dept. Stores	Again Went Public	82[3]	137	July 1987
Stop & Shop Cos.[2]	Management LBO	1,192	282	March 1988
Chief Auto	Management LBO	130	475	April 1988
Jewelcor	Management LBO	62	18	May 1988
Office Depot	Went Public	21	12	June 1988
Dylex Ltd.	Bought remaining 50% interest in NBO	86	28	June 1988

[1] Spun off in TJX Cos., which includes 226 T.J. Maxx stores and 461 Hit or Miss units, and sold 17.5 percent share of TJX.
[2] Bradlees parent. Includes 169 Bradlees and 113 Stop & Shop supermarkets.
[3] Includes $39 million raised through debenture issue.

Source: DSN research

Top Discount Execs Shift Jobs in Changing Market

(Continued from page 45)

the Campeau Corp. is planning to sell to whittle down the $4.6 billion debt it took on to acquire Federated.

In recent months, Gold Circle execs who have jumped ship to sign on at Caldor include: Steven Fishman, who resigned as senior vp, gmm, home lines, for a similar position at Caldor; and Phil Brown, a former financial planner at Gold Circle, now holding a similar position with Caldor.

In addition, four buyers have quit Gold Circle for Caldor: Phil Terry, ready-to-assemble furniture; Michael Pannullo, sporting goods; Derek Dubin, toys; and David Schwartz, health and beauty aids.

And, at about the same time this spring, Gold Circle's chairman Peter Hayes left the discounter to take the position of president and coo of toy supermarket Child World, which saw its own president Gilbert Wachsman resign in March of 1988.

At North Carolina-based Rose's, Bob Floum joined the team as vice president, merchandising. Additionally, the discounter reshuffled its merchandising staff, setting up three buying divisions: hard lines, soft lines and home lines. Doug Harris is the apparel gmm; Gary Hanson is hard lines, gmm; and Bob Sasser is home lines, gmm.

> ***From an executive standpoint, Caldor is benefiting from the turmoil at Gold Circle. Once part of Federated Stores, Gold Circle is now one of the divisions that the Campeau Corp. is planning to sell to whittle down the $4.6 billion debt it took on to acquire Federated.***

Action at Zayre Late Last Summer

At Zayre, most of the action took place late last summer. Zayre Stores chairman Malcolm Sherman resigned, after which Zayre Corp. chairman Maurice Segall named himself acting chairman of the division. HomeClub president Herbert Zarkin, a lifelong Zayre employee, was recently named chairman of Zayre Stores.

Herb Weich, chairman of Zayre Corp.'s BJ's Wholesale Club division, left the company, leaving questions about Zayre's commitment to the membership club business.

Gilman's retirement from Ames left the chain in the capable hands of his hand-picked successor, president and ceo Peter Hollis, who pointed to the hiring of Jim McKitrick as a key to Ames' future direction. McKitrick, president of the company's G.C. Murphy discount and variety store division, is a veteran of K mart, The Warehouse Club and TG&Y, and will oversee the specialty retail experiments Ames plans to introduce over the next year or two.

Cataloger Best Products elected William F. Costello as president and chief operating officer in March of 1988, a post that had been vacant since February 1987 when then president and coo Robert E.R. Huntley was promoted to chairman and ceo.

PACE Membership Warehouse, the 30-unit warehouse club headquartered in Denver, earlier this year named Charles Steinbreuck president and Wayne Patterson chairman of the company. The two will operate as co-ceo's and replace the club's founder Herb Haimsohn, who resigned in April.

And, a year ago this month, Francis Arnone was brought in from The Broadway to head Melville's Marshalls off-price apparel chain.

Who Owns Whom

- **K mart Corp.**
  - K mart
  - Pay Less NW
  - Waldenbooks
  - Bargain Harolds
  - Makro
  - American Fare
  - Builders Square
    - Office Square
    - Sports Giant
- **Wal-Mart Stores**
  - Wal-Mart
  - Sam's Wholesale Club
  - Hypermart USA
  - dot Drug
- **Dayton Hudson**
  - Target
  - Lechmere
- **Zayre Corp.**
  - Zayre
  - BJ's Wholesale Club
  - TJX Cos.
    - T.J. Maxx
    - Hit or Miss
    - Chadwick's
- **Toys "R" Us**
  - Toys "R" Us
  - Kids "R" Us
- **Ames**
  - Ames
  - G.C. Murphy
  - Office Shop Warehouse
- **Stop & Shop Cos.**
  - Bradlees
- **Melville Corp.**
  - Marshalls
  - Meldisco
  - CVS
  - Freddy's
  - Kay-Bee
  - Linens 'n Things
- **May Department Stores**
  - Caldor
  - Venture
  - Loehmann's
- **Super Valu**
  - ShopKo
    - Twin Valu
- **Allied/Federated**
  - Gold Circle
  - MainStreet
  - Children's Place
  - Filene's Basement
- **Sears, Roebuck & Co.**
  - Western Auto
- **Dee Corp.**
  - Herman's
  - Sunset Sports
- **Trump Group**
  - Northern Automotive
- **Thrifty Corp.**
  - Bi-Mart
  - Pay 'n Save
  - Big 5 Sporting Goods
  - Dave Cook Sports
  - Gart Bros. Sporting Goods
- **Atari**
  - The Federated Group
- **Strawbridge & Clothier**
  - Clover
- **Entertainment Marketing**
  - Crazy Eddie
- **Schottenstein Stores**
  - Value City
  - Valley Fair
- **The Kroger Co.**
  - Price Savers
- **International Semi-Tech (Far East)**
  - Consumers Distributing (U.S.)
- **Dart Group**
  - Trak Auto
  - Crown Books
- **Big Bear Stores**
  - Harts
- **PACCAR Inc.**
  - Grand Auto
  - Al's Auto Parts
- **Steinberg Inc.**
  - Smitty's
- **Ward White PLC**
  - Whitlock Auto
- **Greenman Bros.**
  - Circus World Toy Stores
- **H.C. Prange**
  - Prange-Way
- **Interco Inc.**
  - Sky City
- **Fred W. Albrecht**
  - Click
- **Wetterau**
  - Laneco
- **Euromarché**
  - Biggs
- **Kindercare**
  - Bargain Town USA
- **Dylex Limited**
  - NBO Stores
- **Carrefour PLC**
  - Carrefour USA

Top Full-Line Discounters

Chain	Sales (In Millions) 1987	1986	Percent Change
K mart	$22,140	$21,308	3.9%
Wal-Mart	13,248	10,200	29.9
Target	5,306	4,355	21.8
Zayre	3,290	3,046	8.0
Meijer	2,540	2,310	10.0
Ames	2,112	1,888	11.9
Bradlees	2,063	1,873	10.1
Fred Meyer	1,848	1,688	9.5
Hills	1,514	1,343	12.7
Caldor	1,502	1,348	11.4
Rose's	1,337	1,199	11.5
Venture	1,202	1,122	7.1
ShopKo	1,100	940	17.0
Gold Circle	978	969	0.9
Jamesway	701	612	14.5
Fedco	700	650	7.7
Pamida	526	504	4.4
Alexander's	523	520	0.6
Heck's	418	565	(26.0)
Click	396	380.00	4.2
Fisher's Big Wheel	335	290	15.5
Clover	330	300	10.0
ALCO	329	344	(4.4)
Laneco	315	310.00	1.6
Value City	303	293	3.4
S.E. Nichols	295	281	5.0
Ann & Hope	258	250	3.2
Bi-Mart	240	234	2.6
TSS-Seedman's	230	230	0.0
Rich's	217	184	17.9

Source: DSN *research*

Top Specialty Chains

Chain	Code	Sales (In Millions) 1987	1986	Percent Change
Toys "R" Us	TOY	$3,137	$2,445	28.3%
TJX Cos.	APP	1,644	1,395	17.8
Marshalls	APP	1,603	1,409	13.8
Circuit City	CE	1,350	1,011	33.5
Western Auto	AUTO	931	760	22.5
Herman's	SPORT	762	630	21.0
Highland Superstores	CE	753	656	14.8
Silo	CE	750	600	25.0
Child World	TOY	749	629	19.1
Northern Automotive	AUTO	625	485	28.9
Kay-Bee	TOY	610	487	25.3
Ross Stores	APP	576	534	7.9
Pep Boys	AUTO	554	486	14.0
Thrifty Corp.	SPORT	494	359	37.6
Burlington Coat	APP	491	391	25.6

Source: DSN *research*

The Top 100 ALCO to Zayre

Chain	1987 Rank
ALCO, Abilene, Kan.	58
Alexander's, New York, N.Y.	43
American TV, Madison, Wis.	85
Ames, Rocky Hill, Conn.	10
Ann & Hope, Cumberland, R.I.	70
Audio-Video Affiliates, Dayton, Ohio	81
AutoZone, Memphis, Tenn.	50
Best Buy, Minneapolis, Minn.	46
Best Products, Richmond, Va.	11
Bi-Mart, Eugene, Ore.	74
BJ's Wholesale Club, Natick, Mass.	38
Bradlees, Braintree, Mass.	12
Brendle's, Elkin, N.C.	77
Burlington Coat, Burlington, N.J.	45
Caldor, Norwalk, Conn.	17
Chief Auto Parts, Dallas, Texas	52
Child World, Avon, Mass.	30
Circuit City, Richmond, Va.	19
Click, Akron, Ohio	49
Clothestime, Anaheim, Calif.	87
Clover, Philadelphia, Pa.	57
Consolidated Stores, Columbus, Ohio	39
Consumers Distributing, (U.S.) Edison, N.J.	65
Costco, Seattle, Wash.	18
Crazy Eddie, Edison, N.J.	59
Dollar General, Scottsville, Ky.	36
Dress Barn, Stamford, Conn.	88
Family Dollar, Charlotte, N.C.	40
Fedco, Santa Fe Springs, Calif.	32
Federated Group, The, City of Commerce, Calif.	47
Filene's Basement, Wellesley, Mass.	67
Fisher's Big Wheel, New Castle, Pa.	54
Fred Meyer, Portland, Ore.	13
Fretter, Livonia, Mich.	72
Gee Bee, Johnstown, Pa.	92
Gold Circle, Worthington, Ohio	24
Grand Auto, Oakland, Calif.	89
Greenman Bros., Farmingdale, N.Y.	95
Harts, Columbus, Ohio	86
Heck's, Nitro, W.Va.	48
Herman's, Carteret, N.J.	27
Highland Superstores, Taylor, Mich.	28
Hills, Canton, Mass.	16
Jamesway, Secaucus, N.J.	31
K mart, Troy, Mich.	1
K Merchandise, Decatur, Ill.	99
Kay-Bee, Pittsfield, Mass.	35
Laneco, Palmer, Pa.	60
Lechmere, Woburn, Mass.	33
Lionel Leisure, Philadelphia, Pa.	53
Loehmann's, Bronx, N.Y.	55
L. Luria & Son., Miami Lakes, Fla.	84
Makro, Cincinnati, Ohio	62
Marshalls, Wakefield, Mass.	15
Maxway, Sanford, N.C.	91
Meijer, Grand Rapids, Mich.	9
Nationwise, Columbus, Ohio	75
Newmark & Lewis, Hicksville, N.Y.	73
Northern Automotive, Phoenix, Ariz.	34
Oshman's, Easton, Texas	56
OTASCO, Tulsa, Okla.	68
PACE, Aurora, Colo.	25
Pamida, Omaha, Neb.	42
Pay Less NW, Wilsonville, Ore.	22
Pep Boys, Philadelphia, Pa.	41
Pic 'N' Save, Carson, Calif.	51
Prange Way, Green Bay, Wis.	96
Price Club, San Diego, Calif.	4
Price Savers, Salt Lake City, Utah	63
Quality Stores, N. Muskegon, Mich.	93
Rich's, Salem, Mass.	80
Rose's, Henderson, N.C.	20
Ross Stores, Newark, Calif.	37
Sam's, Bentonville, Ark.	8
Service Merchandise, Nashville, Tenn.	7
ShopKo, Green Bay, Wis.	23
Silo, Philadelphia, Pa.	29
Sky City, Asheville, N.C.	100
Smitty's, Phoenix, Ariz.	90
Sportmart, Niles, Ill.	82
Swallen's, Cincinnati, Ohio	98
Syms, Lyndhurst, N.J.	71
S.E. Nichols, New York, N.Y.	64
Target, Minneapolis, Minn.	3
Thrifty Corp, Los Angeles, Calif.	44
TJX Cos., Framingham, Mass.	14
Tops Appliances, Edison, N.J.	66
Toys "R" Us, Rochelle Park, N.J.	6
Trak Auto, Landover, Md.	83
TSS-Seedman's, Brooklyn, N.Y.	76
Value City, Columbus, Ohio	61
Venture, O'Fallon, Mo.	21
Wal-Mart, Bentonville, Ark.	2
Warehouse Club, Niles, Ill.	78
Western Auto, Kansas City, Mo.	26
Whitlock, Des Plaines, Ill.	94
Wholesale Club, The, Indianapolis, Ind.	69
Wiz, The, New York, N.Y.	79
Yellow Front, Phoenix, Ariz.	97
Zayre, Framingham, Mass.	5

Source: DSN *research*

The Discount Industry's Top 100 Chains

				Sales (In Millions)			**Earnings (Loss)**			**Number of Stores**		
1987	**1986**	**Chain**	**Code**	**1987**	**1986**	**Percent Change**	**1987**	**1986**	**Percent Change**	**1/88**	**1/87**	**Proj. 12/88**
1	1	**K mart,** Troy, Mich.	DDS	$22,140	$21,308	3.9%	$1,380.0	$1,310.0	5.3%	2,223	2,204	2,263
2	2	**Wal-Mart,** Bentonville, Ark.	DDS	13,248	10,200	29.9	1,067.0	846.0	26.1	1,114	980	1,239
3	3	**Target,** Minneapolis, Minn.	DDS	5,306	4,355	21.8	322.5	311.0	3.7	317	246	342
4	5	**Price Club,** San Diego, Calif.	CLUB	3,323	2,667	24.6	139.7	116.0	20.4	37	34	41
5	4	**Zayre,** Framingham, Mass.	DDS	3,290	3,046	8.0	(13.9)	129.9	—	382	362	394
6	7	**Toys "R" Us,**[1] Rochelle Park, N.J.	TOY	3,137	2,445	28.3	345.9	284.2	21.7	424	338	519
7	6	**Service Merchandise,** Nashville, Tenn.	CAT	2,719	2,527	7.6	44.4	(29.1)	—	309	300	317
8	11	**Sam's,** Bentonville, Ark.	CLUB	2,711	1,678	61.6	NA	NA	—	84	49	102
9	14	**Meijer,** Grand Rapids, Mich.	DDS	2,540	2,310	10.0	NA	NA	—	53	53	NA
10	10	**Ames,** Rocky Hill, Conn.	DDS	2,112	1,888	11.9	57.6	54.3	6.1	488	463	NA
11	8	**Best Products,** Richmond, Va.	CAT	2,067	2,142	(3.5)	47.6	(24.8)	—	194	194	194
12	9	**Bradlees,** Braintree, Mass.	DDS	2,063	1,873	10.1	56.9	56.6	0.5	171	162	110
13	20	**Fred Meyer,** Portland, Ore.	DDS	1,848	1,688	9.5	53.9	45.4	18.7	99	93	110
14	19	**TJX Cos.,**[2] Framingham, Mass.	APP	1,644	1,395	17.8	125.7	104.5	20.3	750	687	815
15	13	**Marshalls,** Wakefield, Mass.	APP	1,603	1,409	13.8	NA	NA	—	286	261	311
16	15	**Hills,** Canton, Mass.	DDS	1,514	1,343	12.7	33.8	(14.5)	—	151	136	167
17	12	**Caldor,** Norwalk, Conn.	DDS	1,502	1,348	11.4	56.0	70.0	(20.0)	116	115	119
18	25	**Costco,** Seattle, Wash.	CLUB	1,370	747	83.4	5.3	4.5	17.8	43	38	52
19	21	**Circuit City,** Richmond, Va.	CE	1,350	1,011	33.5	89.2	71.5	24.8	105	87	125
20	16	**Rose's,** Henderson, N.C.	DDS	1,337	1,199	11.5	31.6	43.6	(27.5)	237	222	256
21	18	**Venture,** O'Fallon, Mo.	DDS	1,202	1,122	7.1	70.0	80.0	(12.5)	70	65	74
22	17	**Pay Less NW,**[3] Wilsonville, Ore.	DRUG	1,200	1,100	9.1	65.0	NA	—	260	218	288
23	23	**ShopKo,** Green Bay, Wis.	DDS	1,100	940	17.0	61.0	53.5	14.0	75	65	87
24	22	**Gold Circle,** Worthington, Ohio	DDS	978	969	0.9	36.7	31.8	15.4	76	76	NA
25	31	**PACE,** Aurora, Colo.	CLUB	940	595	58.0	7.0	(1.2)	—	32	25	39
26	24	**Western Auto,** Kansas City, Mo.	AUTO	931	760	22.5	18.6	15.1	23.2	1,848	2,049	NA
27	28	**Herman's,** Carteret, N.J.	SPORT	762	630	21.0	NA	NA	—	242	200	268
28	26	**Highland Superstores,** Taylor, Mich.	CE	753	656	14.8	13.3	36.1	(63.2)	72	53	83
29	32	**Silo,** Philadelphia, Pa.	CE	750	600	25.0	NA	NA	—	150	119	210
30	29	**Child World,** Avon, Mass.	TOY	749	629	19.1	26.0	20.8	25.0	152	134	167
31	30	**Jamesway,** Secaucus, N.J.	DDS	701	612	14.5	11.6	12.1	(4.1)	111	101	123
32	27	**Fedco,** Santa Fe Springs, Calif.	DDS	700	650	7.7	NA	NA	—	12	9	12
33	43	**Lechmere,** Woburn, Mass.	DDS	636	476	33.6	22.7	17.0	33.5	24	17	27
34	NR	**Northern Automotive,**[4] Phoenix, Ariz.	AUTO	625	485	28.9	NA	NA	—	505	474	875
35	41	**Kay-Bee,** Pittsfield, Mass.	TOY	610	487	25.3	NA	NA	—	676	639	726
36	34	**Dollar General,** Scottsville, Ky.	DOLLAR	588	565	4.1	18.4	14.5	26.9	1,302	1,339	NA
37	35	**Ross Stores,** Newark, Calif.	APP	576	534	7.9	18.9	(45.5)	—	131	121	146
38	38	**BJ's Wholesale Club,** Natick, Mass.	CLUB	575	350	64.3	NA	NA	—	19	16	22
39	45	**Consolidated Stores,** Columbus, Ohio	CLOSE	571	397	43.8	22.8	36.6	(37.7)	295	219	325
40	40	**Family Dollar,** Charlotte, N.C.	DOLLAR	560	488	14.8	46.8	57.6	(18.8)	1,272	1,107	1,435
41	42	**Pep Boys,** Philadelphia, Pa.	AUTO	554	486	14.0	59.8	55.4	7.9	207	177	242
42	37	**Pamida,** Omaha, Neb.	DDS	526	504	4.4	1.7	NA	—	165	167	168
43	36	**Alexander's,** New York, N.Y.	DDS	523	520	0.6	1.3	4.1	(68.3)	14	14	13
44	81	**Thrifty Corp.,**[5] Los Angeles, Calif.	SPORT	494	359	37.6	NA	NA	—	160	149	NA
45	46	**Burlington Coat,** Burlington, N.J.	APP	491	391	25.6	20.3	17.3	17.3	104	87	125
46	72	**Best Buy,** Minneapolis, Minn.	CE	439	240	82.9	2.8	7.7	(63.6)	40	23	43
47	44	**The Federated Group,** City of Commerce, Calif.	CE	437	430	1.6	NA	(11.5)	—	68	65	61
48	33	**Heck's,** Nitro, W.Va.	DDS	418	565	(26.0)	(61.3)	(18.3)	—	118	172	78
49	NR	**Click,** Akron, Ohio	DDS	396	380	4.2	NA	NA	—	32	32	NA
50	47	**AutoZone,**[6] Memphis, Tenn.	AUTO	384	296	29.7	NA	NA	—	420	386	500
51	56	**Pic 'N' Save,** Carson, Calif.	CLOSE	362	304	19.1	85.7	80.0	7.1	125	101	150
52	65	**Chief Auto Parts,** Dallas, Texas	AUTO	360	256	40.6	NA	NA	—	470	485	492
53	62	**Lionel Leisure,** Philadelphia, Pa.	TOY	344	287	19.9	6.8	10.7	(36.4)	78	65	93
54	61	**Fisher's Big Wheel,** New Castle, Pa.	DDS	335	290	15.5	NA	NA	—	87	81	93
55	49	**Loehmann's,** Bronx, N.Y.	APP	334	323	3.4	NA	NA	—	80	90	86
56	53	**Oshman's,** Easton, Texas	SPORT	333	323	3.1	5.7	5.2	9.6	213	214	225
57	59	**Clover,** Philadelphia, Pa.	DDS	330	300	10.0	NA	NA	—	21	21	22
58	51	**ALCO,** Abilene, Kan.	DDS	329	344	(4.4)	NA	NA	—	146	148	151
59	48	**Crazy Eddie,** Edison, N.J.	CE	315	353	(10.8)	(109.0)	11.0	—	42	32	43
60	NR	**Laneco,** Palmer, Pa.	DDS	315	310	1.6	NA	NA	—	35	35	37
61	60	**Value City,** Columbus, Ohio	DDS	303	293	3.4	NA	NA	—	42	38	45
62	58	**Makro,** Cincinnati, Ohio	CLUB	300	300	0.0	NA	NA	—	4	4	6
63	57	**Price Savers,** Salt Lake City, Utah	CLUB	300	174	72.4	NA	NA	—	12	6	25
64	54	**S.E. Nichols,** New York, N.Y.	DDS	295	281	5.0	(4.8)	2.6	—	44	45	43
65	52	**Consumers Distributing (U.S.)** Edison, N.J.	CAT	280	328	(14.6)	NA	NA	—	85	90	88
66	64	**Tops Appliances,** Edison, N.J.	CE	280	260	7.7	NA	NA	—	2	2	2
67	67	**Filene's Basement,** Wellesley, Mass.	APP	278	248	12.1	NA	NA	—	22	22	22
68	55	**OTASCO,** Tulsa, Okla.	AUTO	275	309	(11.0)	NA	NA	—	221	575	227
69	90	**The Wholesale Club,** Indianapolis, Ind.	CLUB	272	158	72.2	1.5	1.8	(16.7)	15	11	18
70	69	**Ann & Hope,** Cumberland, R.I.	DDS	258	250	3.2	NA	NA	—	6	7	6
71	71	**Syms,** Lyndhurst, N.J.	APP	255	223	14.3	NA	NA	—	18	17	NA
72	63	**Fretter,** Livonia, Mich.	CE	250	273	(8.4)	1.4	4.0	(65.0)	47	45	53
73	76	**Newmark & Lewis,** Hicksville, N.Y.	CE	242	214	13.1	11.3	7.5	50.7	46	34	52
74	73	**Bi-Mart,** Eugene, Ore.	DDS	240	234	2.6	7.1	0.8	787.5	37	36	38
75	78	**Nationwise,**[7] Columbus, Ohio	AUTO	233	200	16.5	NA	NA	—	200	174	300
76	68	**TSS-Seedman's,** Brooklyn, N.Y.	DDS	230	230	0.0	NA	NA	—	22	18	22
77	77	**Brendle's,** Elkin, N.C.	CAT	228	211	8.1	6.8	13.1	(48.1)	40	35	43
78	91	**Warehouse Club,** Niles, Ill.	CLUB	228	157	45.2	NA	NA	—	12	14	12
79	80	**The Wiz,** New York, N.Y.	CE	218	200	9.0	NA	NA	—	24	19	26
80	83	**Rich's,** Salem, Mass.	DDS	217	184	17.9	6.0	6.0	0.0	21	19	21
81	74	**Audio-Video Affiliates,** Dayton, Ohio	CE	212	229	(7.4)	3.9	8.0	(51.3)	117	106	125
82	98	**Sportmart,** Niles, Ill.	SPORT	212	141	50.4	NA	NA	—	18	12	23
83	84	**Trak Auto,** Landover, Md.	AUTO	212	183	15.8	1.3	7.0	(81.4)	245	245	
84	NR	**L. Luria & Son.,** Miami Lakes, Fla.	CAT	205	172	19.2	11.3	7.9	43.0	43	39	47
85	89	**American TV,** Madison, Wis.	CE	199	160	24.4	NA	NA	—	6	6	7
86	82	**Harts,** Columbus, Ohio	DDS	192	187	2.7	9.1	9.2	(1.1)	29	28	NA
87	88	**Clothestime,** Anaheim, Calif.	APP	179	161	11.2	11.5	23.9	(51.9)	338	263	340
88	85	**Dress Barn,** Stamford, Conn.	APP	173	135	28.1	NA	NA	—	302	235	365
89	86	**Grand Auto,** Oakland, Calif.	AUTO	173	166	4.2	5.7	1.4	307.1	106	121	112
90	96	**Smitty's,** Phoenix, Ariz.	DDS	162	145	11.7	NA	NA	—	19	15	21
91	NR	**Maxway,**[8] Sanford, N.C.	DDS	159	241	(34.0)	(4.4)	(18.1)	—	93	75	93
92	87	**Gee Bee,** Johnstown, Pa.	DDS	156	150	4.0	1.7	4.4	(61.4)	21	67	23
93	95	**Quality Stores,** N. Muskegon, Mich.	DDS	155	148	4.7	NA	NA	—	44	42	51
94	94	**Whitlock,** Des Plaines, Ill.	AUTO	155	139	11.5	NA	NA	—	162	177	170
95	93	**Greenman Bros.,** Farmingdale, N.Y.	TOY	153	154	(0.6)	(6.9)	(6.4)	—	325	310	325
96	99	**Prange Way,** Green Bay, Wis.	DDS	150	140	7.1	NA	NA	—	20	20	22
97	NR	**Yellow Front,** Phoenix, Ariz.	DDS	149	145	2.8	9.3	8.9	4.5	171	106	180
98	NR	**Swallen's,** Cincinnati, Ohio	DDS	147	134	9.7	NA	0.8	—	9	9	9
99	NR	**K Merchandise,** Decatur, Ill.	CAT	145	140	3.6	NA	NA	—	11	11	
100	NR	**Sky City,** Asheville, N.C.	DDS	145	125	16.0	NA	NA	—	72	73	NA

NA-not available
NR-not ranked
Some percentages are based on actual numbers before rounding.
Sales: total store volume from apparel, general merchandise and grocery.
Discount store sales only: Kmart, Wal-Mart, Zayre.
Earnings: profit/loss from continuing operations, before income taxes and extraordinary items (except where chains only report net earnings).

[1] *Toys "R" Us includes Kids "R" Us.*

[2] *TJX Cos. includes T.J. Maxx, Hit or Miss and Chadwick's of Boston.*

[3] *Pay Less NW included on basis of toy, general merchandise and apparel sales.*

[4] *Northern Automotive includes Schuck's, Checker, Kragen, Auto Works, Crown and U-Save chains.*

[5] *Thrifty Corp. includes Big Five, Dave Cook, Gart Bros., Michigan Sporting Goods and Casey's Sporting Goods chains.*

[6] *AutoZone was formerly AutoShack.*

[7] *Nationwise acquired Guarantee Auto in February 1988.*

[8] *Maxway purchased 35 Danners stores in April 1987, kept 18 and sold 17 to Consolidated Stores.*

Source: DSN research

Sales Volume Leaders

Chain	Code	Sales (In Millions)		Percent Change
		1987	1986	
K mart, Troy, Mich.	DDS	$22,140	$21,308	3.9%
Wal-Mart, Bentonville, Ark.	DDS	13,248	10,200	29.9
Target, Minneapolis, Minn.	DDS	5,306	4,355	21.8
Price Club, San Diego, Calif.	CLUB	3,323	2,667	24.6
Zayre, Framingham, Mass.	DDS	3,290	3,046	8.0
Toys "R" Us, Rochelle Park, N.J.	TOY	3,137	2,445	28.3
Service Merchandise, Nashville, Tenn.	CAT	2,719	2,527	7.6
Sam's, Bentonville, Ark.	CLUB	2,711	1,678	61.6
Meijer, Grand Rapids, Mich.	DDS	2,540	2,310	10.0
Ames, Rocky Hill, Conn.	DDS	2,112	1,888	11.9
Best Products, Richmond, Va.	CAT	2,067	2,142	(3.5)
Bradlees, Braintree, Mass.	DDS	2,063	1,873	10.1
Fred Meyer, Portland, Ore.	DDS	1,848	1,688	9.5
TJX Cos., Framingham, Mass.	APP	1,644	1,395	17.8
Marshalls, Wakefield, Mass.	APP	1,603	1,409	13.8
Hills, Canton, Mass.	DDS	1,514	1,343	12.7
Caldor, Norwalk, Conn.	DDS	1,502	1,348	11.4
Costco, Seattle, Wash.	CLUB	1,370	747	83.4
Circuit City, Richmond, Va.	CE	1,350	1,011	33.5
Rose's, Henderson, N.C.	DDS	1,337	1,199	11.5
Venture, O'Fallon, Mo.	DDS	1,202	1,122	7.1
Pay Less NW, Wilsonville, Ore.	DRUG	1,200	1,100	9.1
ShopKo, Green Bay, Wis.	DDS	1,100	940	17.0
Gold Circle, Worthington, Ohio	DDS	978	969	0.9
PACE, Aurora, Colo.	CLUB	940	595	58.0

Source: DSN *research*

*Profit Leaders (Net or Operating Income)**

Chain	Code	Earnings (Loss)		Percent Change
		1987	1986	
K mart, Troy, Mich.	DDS	$1,380.0	$1,310.0	5.3%
Wal-Mart, Bentonville, Ark.	DDS	1,067.0	846.0	26.1
Toys "R" Us, Rochelle Park, N.J.	TOY	345.9	284.2	21.7
Target, Minneapolis, Minn.	DDS	322.5	311.0	3.7
Price Club, San Diego, Calif.	CLUB	139.7	116.0	20.4
TJX Cos., Framingham, Mass.	APP	125.7	104.5	20.3
Circuit City, Richmond, Va.	CE	89.2	71.5	24.8
Pic 'N' Save, Carson, Calif.	CLOSE	85.7	80.0	7.1
Venture, O'Fallon, Mo.	DDS	70.0	80.0	(12.5)
Pay Less NW, Wilsonville, Ore.	DRUG	65.0	NA	—
ShopKo, Green Bay, Wis.	DDS	61.0	53.5	14.0
Pep Boys, Philadelphia, Pa.	AUTO	59.8	55.4	7.9
Ames, Rocky Hill, Conn.	DDS	57.6	54.3	6.1
Bradlees, Braintree, Mass.	DDS	56.9	56.6	0.5
Caldor, Norwalk, Conn.	DDS	56.0	70.0	(20.0)
Fred Meyer, Portland, Ore.	DDS	53.9	45.4	18.7
Best Products, Richmond, Va.	CAT	47.6	(24.8)	—
Family Dollar, Charlotte, N.C.	DOLLAR	46.8	57.6	(18.8)
Service Merchandise, Nashville, Tenn.	CAT	44.4	(29.1)	—
Gold Circle, Worthington, Ohio	DDS	36.7	31.8	15.4
Hills, Canton, Mass.	DDS	33.8	(14.5)	—
Rose's, Henderson, N.C.	DDS	31.6	43.6	(27.5)
Child World, Avon, Mass.	TOY	26.0	20.8	25.0
Consolidated Stores, Columbus, Ohio	CLOSE	22.8	36.6	(37.7)
Lechmere, Woburn, Mass.	DDS	22.7	17.0	33.5

* (In Millions) *NA—not available* *Source:* DSN *research*

The Leading Discount Chains

Nationwide DSN Report

The mushrooming specialty store and membership warehouse club companies continued to outpace the performance of full-line discount stores and catalogers during 1987, climbing higher on *DSN*'s listing of volume, profit, store count and selling space leaders.

While K mart and Wal-Mart maintained the same relative rankings as last year, many other discounters lost their relative placement on the charts. In many cases the drop wasn't due to poor performance at the discount chains, but to accelerated growth at specialty stores and warehouse clubs.

The three companies with the highest percentage increases in sales growth were all warehouse clubs: Costco (83.4 percent), Sam's (61.6 percent) and PACE (58 percent).

The specialty chains with especially strong growth in volume included Circuit City (33.5 percent), Toys "R" Us (28.3 percent) and Zayre's spin-off apparel chain TJX Cos. (17.8 percent).

Wal-Mart (29.9 percent) and Target (21.8 percent) were the only discounters with major sales growth. Most were barely into double-digit gains.

In terms of profits, the gainers once again were concentrated among those companies that operate membership warehouses or specialty chains.

Toys "R" Us, Child World, Circuit City, TJX Cos., Price Club and Fred Meyer were all among the strongest profit performers during 1987.

K mart was number one in store count. But specialty chains were also heavily represented among the top 25 leaders, due in part to the relatively smaller size and lower store opening costs associated with specialty stores.

Store Count Leaders

Chain	Code	Number of Stores		
		1/88	1/87	Proj. 12/88
K mart, Troy, Mich.	DDS	2,223	2,204	2,263
Western Auto, Kansas City, Mo.	AUTO	1,848	2,049	NA
Dollar General, Scottsville, Ky.	DOLLAR	1,302	1,339	NA
Family Dollar, Charlotte, N.C.	DOLLAR	1,272	1,107	1,435
Wal-Mart, Bentonville, Ark.	DDS	1,114	980	1,239
TJX Cos., Framingham, Mass.	APP	750	687	815
Kay Bee, Pittsfield, Mass.	TOY	676	639	726
Northern Automotive, Phoenix, Ariz.	AUTO	505	474	NA
Ames, Rocky Hill, Conn.	DDS	488	321	NA
Chief Auto Parts, Dallas, Texas	AUTO	470	485	492
Toys "R" Us, Rochelle Park, N.J.	TOY	424	338	519
AutoZone, Memphis, Tenn.	AUTO	420	386	500
Zayre, Framingham, Mass.	DDS	382	362	394
Clothestime, Anaheim, Calif.	APP	338	263	340
Greenman Bros., Farmingdale, N.Y.	TOY	325	310	325
Target, Minneapolis, Minn.	DDS	317	246	342
Service Merchandise, Nashville, Tenn.	CAT	309	300	317
Dress Barn, Stamford, Conn.	APP	302	235	365
Consolidated Stores, Columbus, Ohio	CLOSE	295	219	325
Marshalls, Wakefield, Mass.	APP	286	261	311
Pay Less NW, Wilsonville, Ore.	DRUG	260	218	288
Trak Auto, Landover, Md.	AUTO	245	245	
Herman's, Carteret, N.J.	SPORT	242	200	268
Rose's, Henderson, N.C.	DDS	237	222	256
OTASCO, Tulsa, Okla.	AUTO	221	575	227

NA—not available *Source:* DSN *research*

Selling Space Leaders

Chain	Code	Total Footage (In 000 Sq. Ft.)	No. of Stores 1/88	Store Size* (In 000 Sq. Ft.)
K mart, Troy, Mich.	DDS	151,164	2,223	68
Wal-Mart, Bentonville, Ark.	DDS	77,980	1,114	70
Ames, Rocky Hill, Conn.	DDS	31,720	488	65
Target, Minneapolis, Minn.	DDS	31,700	317	100
Zayre, Framingham, Mass.	DDS	27,886	382	73
Toys "R" Us, Rochelle Park, N.J.	TOY	19,504	424	46
Service Merchandise, Nashville, Tenn.	CAT	15,450	309	50
Western Auto, Kansas City, Mo.	AUTO	12,936	1,848	7
Best Products, Richmond, Va.	CAT	12,610	194	65
Hills, Canton, Mass.	DDS	12,080	151	80
Bradlees, Braintree, Mass.	DDS	11,970	171	70
Fred Meyer, Portland, Ore.	DDS	10,395	99	105
Rose's, Henderson, N.C.	DDS	9,954	237	42
Caldor, Norwalk, Conn.	DDS	9,512	116	82
Family Dollar, Charlotte, N.C.	DOLLAR	8,904	1,272	7
Sam's, Bentonville, Ark.	CLUB	8,400	84	100
Marshalls, Wakefield, Mass.	APP	8,294	286	29
Gold Circle, Worthington, Ohio	DDS	7,980	76	105
Dollar General, Scottsville, Ky.	DOLLAR	7,812	1,302	6
Pay Less NW, Wilsonville, Ore.	DRUG	7,280	260	28
Lionel Leisure, Philadelphia, Pa.	TOY	7,254	78	93
Meijer, Grand Rapids, Mich.	DDS	7,155	53	135
Consolidated Stores, Columbus, Ohio	CLOSE	7,080	295	24
ShopKo, Green Bay, Wis.	DDS	6,975	75	93
Jamesway, Secaucus, N.J.	DDS	6,438	111	58

*average *Source:* DSN *research*

Chain Codes: ● DDS: Discount department store
● CAT: Catalog showroom ● SPORT: Sporting goods specialty chain
● AUTO: Auto aftermarket specialty chain ● TOY: Toy specialty chain
● APP: Off-price apparel chain ● CE: Consumer electronics chain
● DRUG: Drug discounter ● DOLLAR: Dollar variety chain
● CLUB: Membership warehouse club

Top Chains in Dollar Sales Growth

		Sales (In Millions)		**Sales Growth** (In Millions)
Chain	**Code**	**1987**	**1986**	
Wal-Mart, Bentonville, Ark.	DDS	$13,248	$10,200	$ 3,048
Sam's, Bentonville, Ark.	CLUB	2,711	1,678	1,033
Target, Minneapolis, Minn.	DDS	5,306	4,355	951
K mart, Troy, Mich.	DDS	22,140	21,308	832
Toys "R" Us, Rochelle Park, N.J.	TOY	3,137	2,445	692
Price Club, San Diego, Calif.	CLUB	3,323	2,667	656
Costco, Seattle, Wash.	CLUB	1,370	747	623
PACE, Aurora, Colo.	CLUB	940	595	345
Circuit City, Richmond, Va.	CE	1,350	1,011	339
TJX Cos., Framingham, Mass.	APP	1,644	1,395	249
Zayre, Framingham, Mass.	DDS	3,290	3,046	244
Meijer, Grand Rapids, Mich.	DDS	2,540	2,310	230
BJ's Wholesale Club, Natick, Mass.	CLUB	575	350	225
Ames, Rocky Hill, Conn.	DDS	2,112	1,888	224
Best Buy, Minneapolis, Minn.	CE	439	240	199
Marshalls, Wakefield, Mass.	APP	1,603	1,409	194
Service Merchandise, Nashville, Tenn.	CAT	2,719	2,527	192
Bradlees, Braintree, Mass.	DDS	2,063	1,873	190
Consolidated Stores, Columbus, Ohio	CLOSE	571	397	174
Hills, Canton, Mass.	DDS	1,514	1,343	171

Source: DSN *research*

Top Chains in Percentage Sales Growth

		Sales (In Millions)		**Percent Change**
Chain	**Code**	**1987**	**1986**	
Costco, Seattle, Wash.	CLUB	$ 1,370	$ 747	83.4%
Best Buy, Minneapolis, Minn.	CE	439	240	82.9
Price Savers, Salt Lake City, Utah	CLUB	300	174	72.4
The Wholesale Club, Indianapolis, Ind.	CLUB	272	158	72.2
BJ's Wholesale Club, Natick, Mass.	CLUB	575	350	64.3
Sam's, Bentonville, Ark.	CLUB	2,711	1,678	61.6
PACE, Aurora, Colo.	CLUB	940	595	58.0
Sportmart, Niles, Ill.	SPORT	212	141	50.4
Warehouse Club, Niles, Ill.	CLUB	228	157	45.2
Consolidated Stores, Columbus, Ohio	CLOSE	571	397	43.8
Chief Auto Parts, Dallas, Texas	AUTO	360	256	40.6
Thrifty Corp., Los Angeles, Calif.	SPORT	494	359	37.6
Lechmere, Woburn, Mass.	DDS	636	476	33.6
Circuit City, Richmond, Va.	CE	1,350	1,011	33.5
Wal-Mart, Bentonville, Ark.	DDS	13,248	10,200	29.9
AutoZone, Memphis, Tenn.	AUTO	384	296	29.7
Northern Automotive, Phoenix, Ariz.	AUTO	625	485	28.9
Toys "R" Us, Rochelle Park, N.J.	TOY	3,137	2,445	28.3
Burlington Coat, Burlington, N.J.	APP	490	382	28.3
Dress Barn, Stamford, Conn.	APP	173	135	28.1

Source: DSN *research*

The Fastest Growing Discount Chains

Nationwide DSN Report

When asked which chains opened the most stores last year or which had the largest percentage sales growth, there is probably a temptation to first think of K mart for the former and Wal-Mart for the latter.

In reality, the listings of chains showing the greatest growth in four specific areas contains a few surprises.

The companies that are growing strongest when measured against their previous year's performance include a high percentage of specialty stores and membership warehouses, along with the usual discounters like K mart, Wal-Mart and Target.

Wal-Mart and Sam's, its membership warehouse operation, took first and second place for largest dollar sales growth between 1986 and 1987, with Target, K mart, and a number of warehouse clubs and specialty stores composing the bulk of the top 20 chains showing the greatest growth in sales.

Last year K mart ranked second and Target ranked No. 6. This year Target was third and K mart fourth.

Costco was No. 1 in terms of percentage sales growth between 1986 and 1987, recording a 83.4 percent sales surge. The only discounter to measure up was Wal-Mart, No. 15, with a 29.9 percent increase.

Other membership warehouse clubs that experienced similar high-percentage sales spurts last year included Price Savers, The Wholesale Club, Sam's, PACE and Warehouse Club, all of which had 1987 sales that were at least 45 percent higher than for 1986.

As for the highest growth in dollar earnings, Wal-Mart, with $221 million, lead the pack, followed by Service Merchandise, $73.5 million, and Best Products, $72.4 million. The two catalogers managed to increase their dollar earnings within a one-year period even more successfully than K mart (up $70 million) and other powerhouses.

Both Service and Best turned red ink in 1986 into black last year. Each cataloger lost over $20 million two years ago but recorded profits exceeding $40 million in 1987. The roughly $70 million in earnings growth at the two catalogers outpaced highly successful specialty stores such as Toys "R" Us and Circuit City, as well as a long list of wholesale clubs and traditional discount outlets.

Family Dollar and Wal-Mart again topped the chart in terms of having the highest number of new store openings in a one-year period. The dollar store operator opened 165 stores during 1987; Wal-Mart opened 134 units. Toys "R" Us, which had ranked No. 9 last year with 49 store openings, jumped to the No. 3 spot by opening 86 new locations.

Other than Wal-Mart, discounters fared poorly in the new stores measurement. Target was the next discounter to show, ranking No. 6 with 71 new units in 1987.

Top Chains in Dollars Earnings Growth

		Earnings (Loss) (In Millions)		**Earnings Growth** (In Millions)
Chain	**Code**	**1987**	**1986**	
Wal-Mart, Bentonville, Ark.	DDS	$1,067.0	$ 846.0	$ 221.0
Service Merchandise, Nashville, Tenn.	CAT	44.4	(29.1)	73.5
Best Products, Richmond, Va.	CAT	47.6	(24.8)	72.4
K mart, Troy, Mich.	DDS	1,380.0	1,310.0	70.0
Ross Stores, Newark, Calif.	APP	18.9	(45.5)	64.4
Toys "R" Us, Rochelle Park, N.J.	TOY	345.9	284.2	61.7
Hills, Canton, Mass.	DDS	33.8	(14.5)	48.3
Price Club, San Diego, Calif.	CLUB	139.7	116.0	23.7
TJX Cos., Framingham, Mass.	APP	125.7	104.5	21.2
Circuit City, Richmond, Va.	CE	89.2	71.5	17.7
Maxway, Sanford, N.C.	DDS	(4.4)	(18.1)	13.7
Target, Minneapolis, Minn.	DDS	322.5	311.0	11.5
Fred Meyer, Portland, Ore.	DDS	53.9	45.4	8.5
PACE, Aurora, Colo.	CLUB	7.0	(1.2)	8.2
ShopKo, Green Bay, Wis.	DDS	61.0	53.5	7.5
Bi-Mart, Eugene, Ore.	DDS	7.1	0.8	6.3
Lechmere, Woburn, Mass.	DDS	22.7	17.0	5.7
Pic 'N' Save, Carson, Calif.	CLOSE	85.7	80.0	7.1
Gold Circle, Worthington, Ohio	DDS	36.7	31.8	4.9
Pep Boys, Philadelphia, Pa.	AUTO	59.8	55.4	4.4

Source: DSN *research*

Top Chains in Store Count Growth

		Number of Stores		**Number of New Stores in 1987**
Chain	**Code**	**1/88**	**1/87**	
Family Dollar, Charlotte, N.C.	DOLLAR	1,272	1,107	165
Wal-Mart, Bentonville, Ark.	DDS	1,114	980	134
Toys "R" Us, Rochelle Park, N.J.	TOY	424	338	86
Consolidated Stores, Columbus, Ohio	CLOSE	295	219	76
Clothestime, Anaheim, Calif.	APP	338	263	75
Target, Minneapolis, Minn.	DDS	317	246	71
Dress Barn, Stamford, Conn.	APP	302	235	67
Yellow Front, Phoenix, Ariz.	DDS	171	106	65
TJX Cos., Framingham, Mass.	APP	750	687	63
Herman's, Carteret, N.J.	SPORT	242	200	42
Pay Less NW, Wilsonville, Ore.	DRUG	260	218	42
Kay-Bee, Pittsfield, Mass.	TOY	676	639	37
Sam's, Bentonville, Ark.	CLUB	84	49	35
AutoZone, Memphis, Tenn.	AUTO	420	386	34
Northern Automotive, Phoenix, Ariz.	AUTO	505	474	31
Silo, Philadelphia, Pa.	CE	150	119	31
Pep Boys, Philadelphia, Pa.	AUTO	207	177	30
Nationwise, Columbus, Ohio	AUTO	200	174	26
Ames, Rocky Hill, Conn.	DDS	488	463	25
Marshalls, Wakefield, Mass.	APP	286	261	25

Source: DSN *research*

Chain Codes: • DDS: Discount department store
• CAT: Catalog showroom • SPORT: Sporting goods specialty chain
• AUTO: Auto aftermarket specialty chain • TOY: Toy specialty chain
• APP: Off-price apparel chain • CE: Consumer electronics chain
• DRUG: Drug discounter • DOLLAR: Dollar variety chain
• CLUB: Membership warehouse club

Cataloger Rebound: Focus on Regional Chains

Nationwide DSN Report

The fortunes of the catalog showroom industry will shine brighter this year, sparked by the turnaround of the two largest chains, Service Merchandise and Best Products, whose operations are national in scope, and the renewed expansion activities of a number of smaller, regional and local companies.

The industry's luster will also reflect the key role that jewelry plays in the merchandising plans of almost all catalogers. Service Merchandise and Best Products are among the nation's top jewelry retailers, while diamonds, watches and gold merchandise account for up to 40 percent of the sales of regional catalogers like L. Luria & Son during the holiday fourth quarter.

The total volume of the 144 catalogers that operate about 1,125 showrooms and comprised the industry at the start of 1988 are projected at $7.1 billion this year, up 2.9 percent from approximately $6.9 billion last year.

Despite the large number of catalog firms, the industry is dominated by the two national chains and 18 regional operators that last year accounted for almost $6.6 billion in sales or about 95 percent of the $6.9 billion volume.

These same chains checked out just over $6.4 billion in sales in 1986, or 91.6 percent of the industry's $7 billion in volume. Those sales included volume from major regional catalogers like McDade, Segall's and Boardman as well as a number of single-showroom operators that subsequently left the industry, resulting in the lower revenue figure for 1987.

The industry is dominated by two national and 18 regional chains that accounted for 95 percent of total sales.

The top 20 chains' growing share of the catalog action reflects the increasingly important role that has fallen to the 18 major regional showroom operators, most of which are family-run, privately-held companies. The volume of these 18 sectional operators runs the gamut from $280 million for Consumers Distributing (U.S.) with stores in the metropolitan Boston, New York, Philadelphia and Baltimore markets, to $35 million for Golbro in Alabama.

Another dozen regional and single-state companies whose sales range between $15 million and $35 million comprise a second layer of chains. They, too, are becoming an increasingly important industry component.

The growing impact being made by the major regional operations is evident from the expansion plans to which a number of these chains have already made commitments. L. Luria & Son has four new showrooms on the drawing board, with Brendle's and Evans Distributors each set for three and Arthur's Jewelry and Save-Rite down for two apiece.

Not included in the growth statistics are remodelings and refurbishings planned by a number of chains looking to offer customers more attractive and easier to shop store environments.

The projected total of 856 showrooms for the top 20 by the end of the year is a 30.1 percent increase in the store count from last year's 831 units. The top 20 accounted for 73.9 percent of the industry's showrooms at the start of the year.

The importance of the regional chains, however, hasn't detracted from the leading roles played by Service Merchandise and Best Products, the two chains that together accounted for 69.3 percent of the industry's sales last year. This is a 3.9 percent increase from their combined 66.7 percent share in the prior year.

Service Merchandise remains the powerhouse cataloger, alone accounting for 39.4 percent of the industry's sales last year, up 9.1 percent from 36.1 percent in 1986.

Best Products' share, meanwhile, fell 2.3 percent to 29.9 percent from 30.6 percent as the cataloger's sales slipped slightly. It continues to be the No. 2 cataloger in volume.

Best Products isn't the only cataloger whose sales dropped last year. Consumers Distributing's plunged 14.6 percent due to the chain closing down its West Coast showrooms to focus on its East Coast operation.

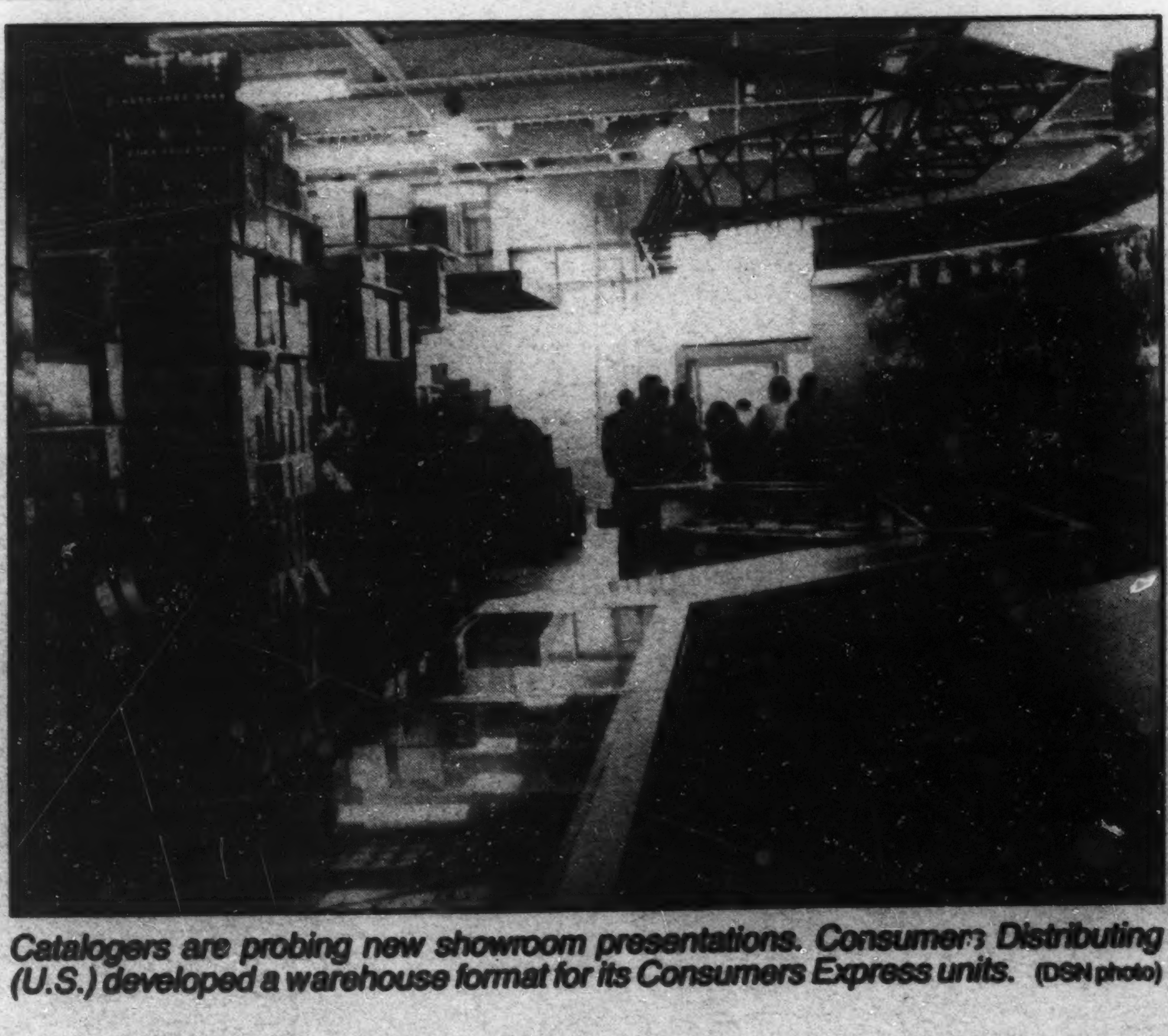
Store closings were also behind the volume declines at W. Bell, down 7.6 percent, and Jewelcor, off 4.2 percent. In Bell's case, it was the shutting of its five-showroom Texas operation, while Jewelcor phased out five scattered unprofitable units.

Top Catalog Showroom Chains

Chain (Coordinator)	Sales (In Millions) 1987	1986	Percent Change	Number of Stores 12/88*	12/87	12/86
Service Merchandise, Nashville, Tenn. (Independent)	$2,719	$2,527	7.6%	317	309	300
Best Products, Richmond, Va. (Independent)	2,067	2,142	(3.5)	194	194	194
Consumers Distributing (U.S.) Edison, N.J. (Independent)	280	328	(14.6)	86	85	95
Brendle's, Elkin, N.C. (MAI)	228	211	8.2	43	40	35
L. Luria & Son, Miami Lakes, Fla. (Independent)	205	172	19.3	47	43	39
K's Merchandise, Decatur, Ill. (Paul Schultz)	145	140	3.6	11	11	11
David Weis, Monroeville, Pa. (MAI)	130	125	4.0	17	17	16
W. Bell, Rockville, Md. (Independent)	120	130	(7.6)	18	18	22
Jewelcor, Wilkes Barre, Pa. (Jewelcor)	117	122	(4.2)	17	17	22
Dahlkemper's, Erie, Pa. (Paul Schultz)	72	68	5.9	10	9	7
Present Co., Rochester, N.Y. (MAI)	65	58	12.1	21	20	18
Sterling Jewelry, Dallas, Texas (Paul Schultz)	65	60	8.3	5	5	5
E.H. Tepe, South Bend, Ind. (Paul Schultz)	55	50	10.0	10	10	10
Evans Distributors, Rockville, Md. (MAI)	55	50	10.0	9	6	6
Brand Name, Tonawanda, N.Y. (Independent)	45	43	4.7	15	15	15
Arthur's Jewelers, Plainfield, N.J. (MAI)	43	43	0	8	6	6
Foland, Livonia, Mich. (Paul Schultz)	40	40	0	6	6	7
Witmark, Grand Rapids, Mich. (MAI)	40	35	14.3	8	8	7
Save-Rite, Woonsocket, R.I. (MAI)	37	37	0	7	5	5
Golbro, Birmingham, Ala. (Associated Charter)	35	32	9.4	7	7	7

*projected

Source: DSN research



Catalogers are probing new showroom presentations. Consumers Distributing (U.S.) developed a warehouse format for its Consumers Express units. (DSN photo)

Consolidations Shake Up Top Auto Chains

Top Automotive Specialty Chains

Chain	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change	Number of Stores 12/88*	Number of Stores 1/88	Average Store Size (In Sq. Ft.)
Western Auto Kansas City, Mo.	931	760	22.5	NA	1,848	7,000
Northern Automotive Phoenix, Ariz.	625	485	28.9	875	505	6,000
Pep Boys Philadelphia, Pa.	554	486	14.0	242	207	18,000
AutoZone Memphis, Tenn.	384	296	29.7	500	420	4,000
Chief Auto Parts Dallas, Texas	360	256	40.6	492	470	3,000
OTASCO Tulsa, Okla.	275	309	(11.0)	227	221	7,000
Nationwise Columbus, Ohio	233	200	16.5	300	200	6,000
Trak Auto Landover, Md.	212	183	15.8	NA	245	6,000
Grand Auto Oakland, Calif.	173	166	4.2	112	106	9,000
Whitlock Des Plaines, Ill.	155	139	11.5	170	162	10,000

*projected

NA—not available

[1] Northern Automotive includes Schuck's, Checker, Kragen, Auto Works, Crown and U-Save chains.

[2] AutoZone formerly Auto Shack

[3] Nationwise acquired Guarantee Auto in February 1988.

Source: DSN research

Nationwide DSN Report

Consolidation, along with poor earnings and actual losses for some chains, were stamped all over the automotive aftermarket during the past year.

In the most prominent acquisition, in April, Sears, Roebuck & Co. took over the nation's largest automotive chain, Western Auto, Kansas City, Mo. The deal involved the assumption of $152 million in debt and the payment of $250 million in cash, for a total of $402 million.

For its outlay, Sears added 278 Western Auto stores to its 797 automotive centers, and about 116 Tire America and NTW tire stores that the company had acquired. In addition, through Western's wholesale division, Sears will service 1,570 independently owned stores that operate under the Western Auto banner.

Counting Western Auto's sales of $930.8 million in 1987, the automotive arm of Sears now will enjoy almost $3 billion in annual revenues.

Western Auto, which still operates under its own name and product lines, is continuing its long-term trend of closing hundreds of its small, rural associate stores. Moreover, it is encouraging the remaining associate store owners to adopt the same merchandising format and size of a company-owned store. So far, 320 have converted to what it calls Flag Store status.

Western Opens True Franchise Unit

In addition, Western Auto has opened its first true franchise store, where the franchisee must follow company operating and merchandising policies and pay franchisee fees. It expects to open four more franchised stores by the end of 1988 and 24 company-owned stores, for a total of 302.

Suggestive of the financial state of the automotive aftermarket, Western Auto earned just $10.5 million in 1987, or 1.12 percent of sales. Its pre-tax profits rose 23 percent to $18.6 million from $15.1 million in 1986, but that is half of the $37.4 million pre-tax earnings in 1985, the year that Beneficial Finance sold it to Wesray Corporation, whose partners include former treasury secretary William Simon. Heavy interest charges to service acquisition debt have dampened profits.

Pre-tax profits of Trak Auto, controlled by the Haft family's Dart Group, plunged 81 percent to $1.3 million in 1987 from $7 million in 1986.

Pep Boys Shows 6.2% Net Margin

In contrast, Pep Boys—Manny Moe & Jack, Philadelphia, earned $34.3 million in net profits on sales of $553.8 for a standout net margin of 6.2 percent. Pre-tax profits, though, rose only 7.9 percent to $59.8 million from $55.4 million in 1986.

Northern Automotive, the Phoenix-based combine owned by the New York investors, Eddie and Julius Trump, bought two troubled chains early in 1988—and ran into trouble paying its vendors (see *DSN*, June 6, 1988, page 1).

In January, it spent $33 million to buy the 252 Auto Works stores from Perry Drug Stores, which sold the chain it developed primarily through acquisition after getting "disappointing [probably losing] results." Perry took a $14.2 million write-off on its Auto Works division sale. In March, Northern paid $8 million for the 57 stores of Crown Auto, Minneapolis, which lost $1.6 million in 1987, on top of $170,000 in 1986.

In between, it bought for an undisclosed sum the eight stores in the U-Save Auto Parts chain, Los Angeles. Including units of its original acquisition, Schuck's, in 1984, Northern operates 820 stores, with consolidated sales "in excess of $600 million."

Northern ran into a cash flow squeeze this spring in remerchandising the 378 stores of the Checker and Kragen chains, acquired for $155 million from Lucky Stores in December 1986, and integrating them into Schuck's. Northern bumped its sku count to about 9,000 from 8,000, incurring extra inventory costs.

To allay vendor concerns about its financial stability, Northern called them in for a meeting April 28, after which they agreed to help the company through its growing pains in exchange for assurances the company will get current by Aug. 1.

One credit manager who attended the meeting, said Northern president Dan Siewert told them that Northern earned a net return of more than 6 percent on sales last year.

As a private company, Northern does not disclose sales and earnings.

Another money-losing chain, Grand Auto, Oakland, Calif., also changed hands in 1988. In June, PACCAR, the Seattle-based maker of heavy trucks, acquired the Grand chain for about $49.2 million in cash. Grand lost $5.9 million from operations in 1987, on top of $136,000 in 1986, and trimmed its store count to 107 from 113. Grand Auto sales rose to $172.5 million in 1987 from $165.8 million.

Flush with cash from a resurgence in heavy trucks, PACCAR had purchased last September the 25 stores of Al's Auto Supply, Everett, Wash., for an undisclosed sum. To acquire Grand, PACCAR paid $16 a share, almost twice the $8.25 a share Grand was trading for when PACCAR announced its offer in January.

Fears of a hostile takeover, possibly by corporate raider Herbert Haft and his Dart Group, led to new owners for Chief Auto Parts, now Seagoville, Texas (Dallas), and stunted its growth for three quarters.

Last July, the Southland Corp., which then owned Chief along with the 7-Eleven convenience store chain, announced it was going private through an LBO after a corporate raid was threatened.

The stock market crash on Oct. 19 soured the junk bond market, though, and delayed the Southland LBO by the Thompson family for several months. That postponed the sale of Chief for $130 million, to reduce Southland's LBO debt, until April 29, 1988.

Chief Expands After Sale

The new private owners of Chief are a partnership of management and Shearson Lehman Brothers. During those months, Chief expansion was put on hold. In rapid succession following the sale, however, it opened 14 stores that had been in the works to push its store count to 470. But further expansion in 1988 remains up in the air.

Nationwise, Columbus, Ohio, also has grown by acquiring a smaller chain. Starting 1988 with 200 stores, Nationwise in February paid $10.6 million for the 75 stores of Columbus-based Guarantee Auto. The acquisition adds $52 million in sales to an 1987 Nationwise estimate of $233 million.

The automotive chain controlled by grocery wholesaler Malone & Hyde has a new name. To settle a lawsuit brought by Radio Shack, the chain, once called Auto Shack, has changed the name of its 420 stores to AutoZone.

Malone & Hyde, Memphis, Tenn., which went private in 1985 through a $585 million leveraged buyout, has agreed to be acquired by another grocery wholesaler, Fleming Cos., Tulsa, Okla. The transaction, valued at $600 million, excludes AutoZone, which its parent company spun off as a separate corporation in February 1987, as the first step toward taking it public.

The owners remained unchanged: a management group that includes Malone & Hyde chairman J.R. Hyde III and AutoZone president Peter Formanek, which owns 30 percent, and Kohlberg, Kravis and Roberts, the financiers specializing in arranging LBOs, owners of 70 percent.

"It is reasonable to assume" that the owners will take AutoZone public in the next 24 months, said Malone & Hyde spokesman Gary Burhop.

AutoZone is "enjoying a very strong earnings growth," Burhop said. "Nobody would believe what those stores are doing."

Whatever price a piece of AutoZone fetches from the public, it would appear to be largely profit. The owners already have realized a $15 million profit above what they paid for the entire operation through the sale of the wholesale grocery and retail drug store businesses announced last month. The chain also garnered an undisclosed sum in selling its 30-store Sunset sporting goods division in 1985.

The $130 million price paid for Chief Auto isn't comparable to AutoZone's value because Chief stores are different and much smaller, Burhop said.

In its continued drive to develop into a national chain, Pep Boys—Manny, Moe & Jack, Philadelphia, has purchased two sites in Oklahoma City for 1989 expansion and is seeking two others. As an expansion move out of its new Atlanta hub, Pep Boys is re-entering the North Carolina market sometime in 1988, starting with Charlotte.

In a less happy development, Tulsa-based OTASCO retrenched last year by closing 42 money-losing stores and selling its wholesale division. The steps slashed sales in 1987 to $275 million from $309 million in 1986.

The unprofitable stores closed represented 16 percent of total units but accounted for only 10 percent of sales. Employee-owned, OTASCO refuses to disclose whether it made or lost money on 1987 operations or how the store closings and sale of its wholesale division will affect profitability.

CE Chains Slow Growth in Lackluster Market

Nationwide DSN Report

While the antics of Crazy Eddie founder Eddie Antar grabbed most of the headlines, other CE retailers were making news as well in 1987.

The market as a whole was decidedly lackluster, but chains like Richmond, Va.-based Circuit City, Brooklyn, N.Y.-based The Wiz and Philadelphia's Silo racked up record years, and Minneapolis-based Best Buy nearly doubled its 1986 sales, rocketing from $240 million to $439 million last year.

Best Buy's performance came on the heels of a 113 percent sales gain the previous year. Much of that year's growth was attributable to store expansion (it grew from 23 to 40 stores), but this year, the gains were made primarily in existing stores. The 83 percent gain moved the chain from a ranking of 8th place nationally last year to No. 4 this year.

Overall, there were several changes in top chain ranking this year. While the first three (Circuit City, Highland Superstores and Silo) held their positions, most others shifted up and down. Those on the way up included Best Buy, Newmark & Lewis (9th from 10th), The Wiz (10th from 11th) and Trader Horn (13th from 14th). San Francisco-based The Good Guys, which increased its sales 35 percent to $120 million, was the sole new chart entry, at 15th place.

Best Buy's jump to 4th place pushed several chains back. Federated, Crazy Eddie and Fretter Appliance all dropped one place in the ranking. Audio-Video Affiliates was the only chain to lose more than one place on the ranking, dropping from 9th to 11th. Luskins and Brick Church each dropped one place. Tops Appliances (7th) and American TV (12th) both held steady.

Best Buy Leads Gainers

While Best Buy's 82.9 percent sales leap easily led the field, other chains showed some healthy results. Circuit City increased sales 33.5 percent to $1.35 billion, while Silo (25 percent), American TV (24.4 percent) and The Good Guys (34.8 percent) all posted significant gains. Highland Superstores (14.8 percent) and Newmark & Lewis (13.1 percent) also showed double-digit gains. Other gainers were Federated, Tops Appliances, The Wiz and Trader Horn, with Brick Church's sales flat.

Crazy Eddie, which showed a 10.8 percent drop in sales, mostly due to out-of-stocks that resulted when some suppliers stopped shipments, was the biggest loser on the chart, but Luskin's (down 9.3 percent) also lost a lot of ground. Fretter and Audio-Video Affiliates were the other losers.

Most of the growth was derived from rapid expansion and cannibalization of competitors' markets; overall, the CE market hit the doldrums. Sales of VCRs dropped off for the first time, dipping from $5.3 billion to about $5.1 billion in total sales. Audio systems, non-cellular telephones, blank videocassettes and home satellite systems also lost ground, according to the Electronic Industries Association.

The ground was made up by the hot CD, camcorder and cellular phone product areas, but the net result was nearly flat growth. Overall, home electronics sales inched up to the $31 billion mark from $30.3 billion, gaining only a little better than 2 percent.

Compact disc technology was perhaps the biggest news in 1987, growing from zero business in 1984 to over a million units sold last year. With sharp drops in prices brought on by more competition, CD players set a record in moving from the audiophile to the general public and, as prices continue to drop, it's expected that CD hardware sales will continue to soar.

Last year also saw the start of the home office boom, and several CE chains got in on the ground floor. This year, most chains plan to increase their commitment to the home office market. Crazy Eddie, for example, plans to add computer/home office departments to all of its stores by year-end, and several larger chains have made commitments to leading computer companies for this fiscal year.

In other categories, last year was not a good year in the new product category, and 1988-89 doesn't look much better. The most publicized new product, digital audio tape players and recorders, are at least two years away from the mass market. Teac, which will introduce the first recorders to the U.S. market this month, has attached a $5,000 price tag to the first few, and it is unlikely that the price will fall below $1,000 in the near future. The players, primarily car units, are also expensive ($1,000-$1,500), although those prices should drop more quickly.

The problem there is that there is virtually no software available for the machines. A few small labels have introduced a limited selection, mainly in the easy-listening jazz area. This may appeal to early users of the technology, who will be mainly older consumers with luxury cars. The shortage of music will probably hurt what growth the industry could have expected at the present price point.

Tandy's home CD player is another "hot" product which probably won't have much impact on the market in the near future. According to the company, the first units are about 18 months to 24 months away, and it seems that the recorders are more a computer product than an audio product.

With most of the hottest products (the above, Super VHS, portable video players from Sony, CD graphic, etc.) at least a year away from wide availability, projections for 1988 growth are conservative, generally around 2 percent. The hottest area for 1988, home office equipment, will account for much of that growth, and with the arrival of office supply warehouse operations, CE chains may not benefit as much as they have from other electronics trends.

The same holds true for the exploding home video game market, where CE specialists will face tough competition from toy chains and traditional discounters. The growth of the category will also be stunted somewhat by a shortage of supply from some industry leaders.

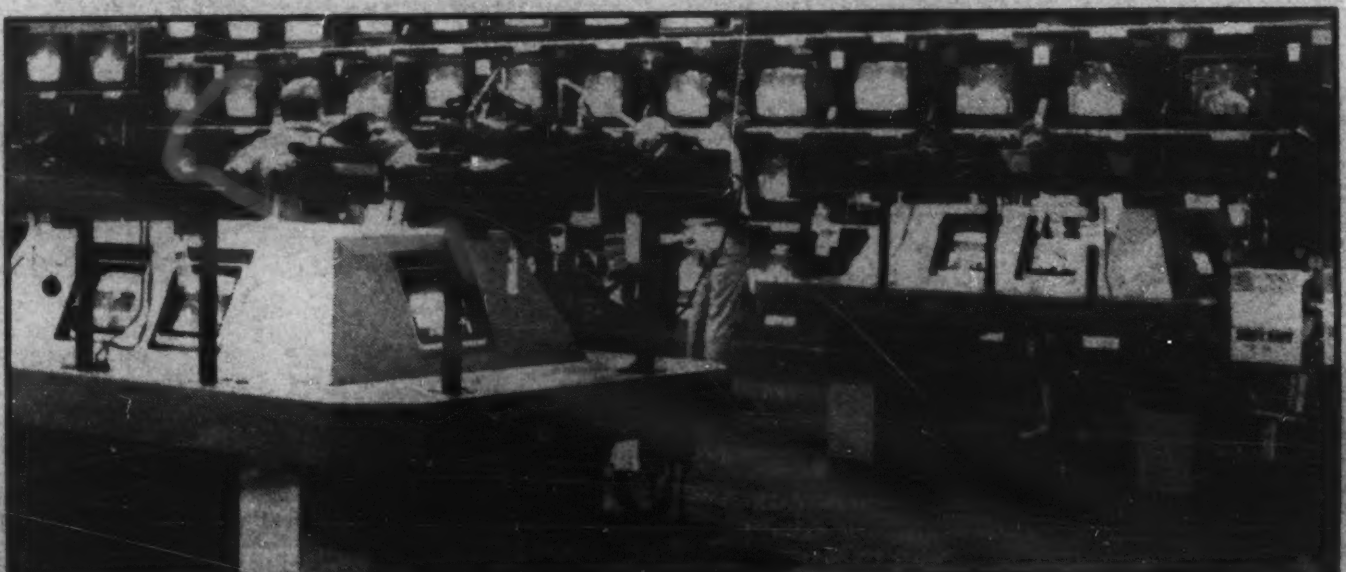
With that in mind, most chains are forsaking expansion for business development. Apart from Silo, which plans to add 60 stores this year, the bulk of CE retailers have announced modest or even negative growth this year. Attention will be spent, instead, on becoming more competitive in established markets, most retailers said.

Top CE Specialty Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1987	1986		12/88*	1/88	
Circuit City Richmond, Va.	$1,350	$1,011	33.5%	125	105	25,000
Highland Superstores Taylor, Mich.	753	656	14.8	83	72	15,000
Silo Philadelphia, Pa.	750	600	25.0	210	150	8,000
Best Buy Minneapolis, Minn.	439	240	82.9	43	40	17,000
The Federated Group City of Commerce, Calif.	437	430	1.6	61	68	30,000
Crazy Eddie Edison, N.J.	315	353	(10.8)	43	42	8,000
Tops Appliances Edison, N.J.	280	260	7.7	2	2	50,000
Fretter Livonia, Mich.	250	273	(8.4)	53	47	15000
Newmark & Lewis Hicksville, N.Y.	242	214	13.1	52	46	9,000
The Wiz New York, N.Y.	218	200	9.0	26	24	8,000
Audio-Video Affiliates Dayton, Ohio	212	229	(7.4)	125	117	20,000
American TV Madison, Wis.	199	160	24.4	7	6	60,000
Trader Horn Hasbrouck Heights, N.J.	140	135	3.7	16	15	8,000
Luskins Baltimore, Md.	127	140	(9.3)	44	44	10,000
The Good Guys San Francisco, Calif.	120	89	34.8	18	15	13,000
Brick Church Orange, N.J.	100	100	0.0	40	22	10,000

**projected*

Source: DSN research



This Best Buy unit is one of three Kansas City, Kan., area superstores opened last fall. Sales for the chain jumped 82.9% in 1987. (DSN photo)

’88 Growth to Come from Top Three Clubs

Nationwide DSN Report

Two diverse trends that reflect past growth patterns will drive the membership warehouse industry this year to a record $13.4 billion in sales.

The trends are:

- Continued growth in sales and stores by the industry’s Big Three more profitable chains, Price Club, Sam’s Wholesale Club and Costco. Together, the trio, whose sales amounted to over $7.3 billion last year or 61.9 percent of the industry’s $11.8 billion in volume, will unveil 31 new wholesale clubs or about half of the industry’s total growth of about five dozen new units during 1988.
- Limited growth by the remainder of the industry as chains strive to boost their fledging earnings, in the case of PACE, or overcome red ink and become profitable, like The Wholesale Club and Warehouse Club.

Accompanying these trends will be two specific newsworthy notes.

Sam’s Set to Pass Price Club

Sam’s is set to become the top volume chain this year with over $4 billion in sales, passing Price Club, which has been the leader up until now. Sam’s is already the No. 1 chain in stores with 84 units, almost double that of Costco’s 43 and twice that of the Price Club’s 37.

Makro Targeted for Growth

Makro, up to now a minor player, has been targeted for a major role in the industry as a result of its recent acquisition by K mart Corp. The four-store membership warehouse club’s new parent envisions the chain growing to 20 units, predominantly in the Northeast, by 1990, and more than tripling its sales to $1 billion.

Makro, however, is an atypical membership warehouse in that its 25,000 sku’s provide members with a full line of grocery and general merchandise, including fashion apparel and goods in consumer-size packs, not just institutional sizes. All the other warehouse clubs merchandise a highly selected mix of just 4,000 sku’s, with institutional sizes and business-oriented goods as the predominant offerings.

On the operations side, most membership warehouses are focusing on boosting their services to business members, their key customer group that usually accounts for about 75 percent of sales. These efforts range from offering proprietary credit cards, the most common new service, to the addition of new departments like optical, pharmacy, bakery, fresh meat and fish, and even gas stations and automobile buying services.

The approximately 300 warehouse clubs that dotted the nation last year left the industry plenty of room for growth. It also meant that wholesale clubs, unlike other merchandising businesses, weren’t involved in extensive head-to-head competition.

The one major exception was Southern California, home to the industry’s founding chain, Price Club, which is now battling five other membership warehouses with units in the area—Costco, PACE, Price Savers, Buyer’s Club amd Club Wholesale.

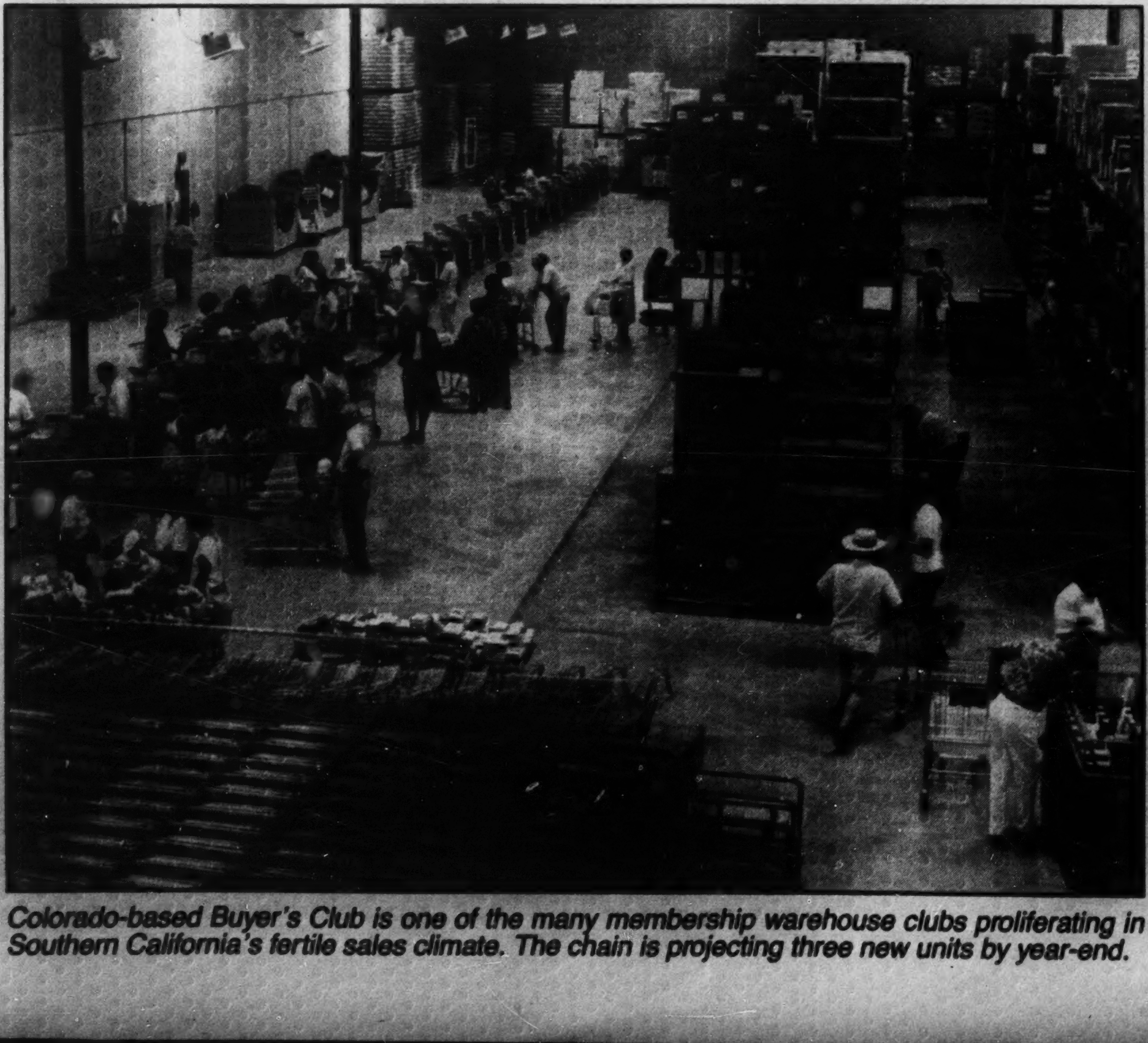
While only one or two wholesale clubs operate in most other markets, it doesn’t mean that these chains have an easy time because of the lack of competition. In fact, stores in the Midwest have taken twice as long to become profitable as those on the East and West Coasts because of the lower population density in markets in the nation’s mid-section.

In two Midwest markets warehouse clubs have actually shut stores. The Warehouse Club closed two in the Chicago area and these units were then taken over by American Wholesale, which then also shut the stores. In Minneapolis and Milwaukee, Costco closed three clubs, one of which was acquired by The Wholesale Club, which already had units in both markets.

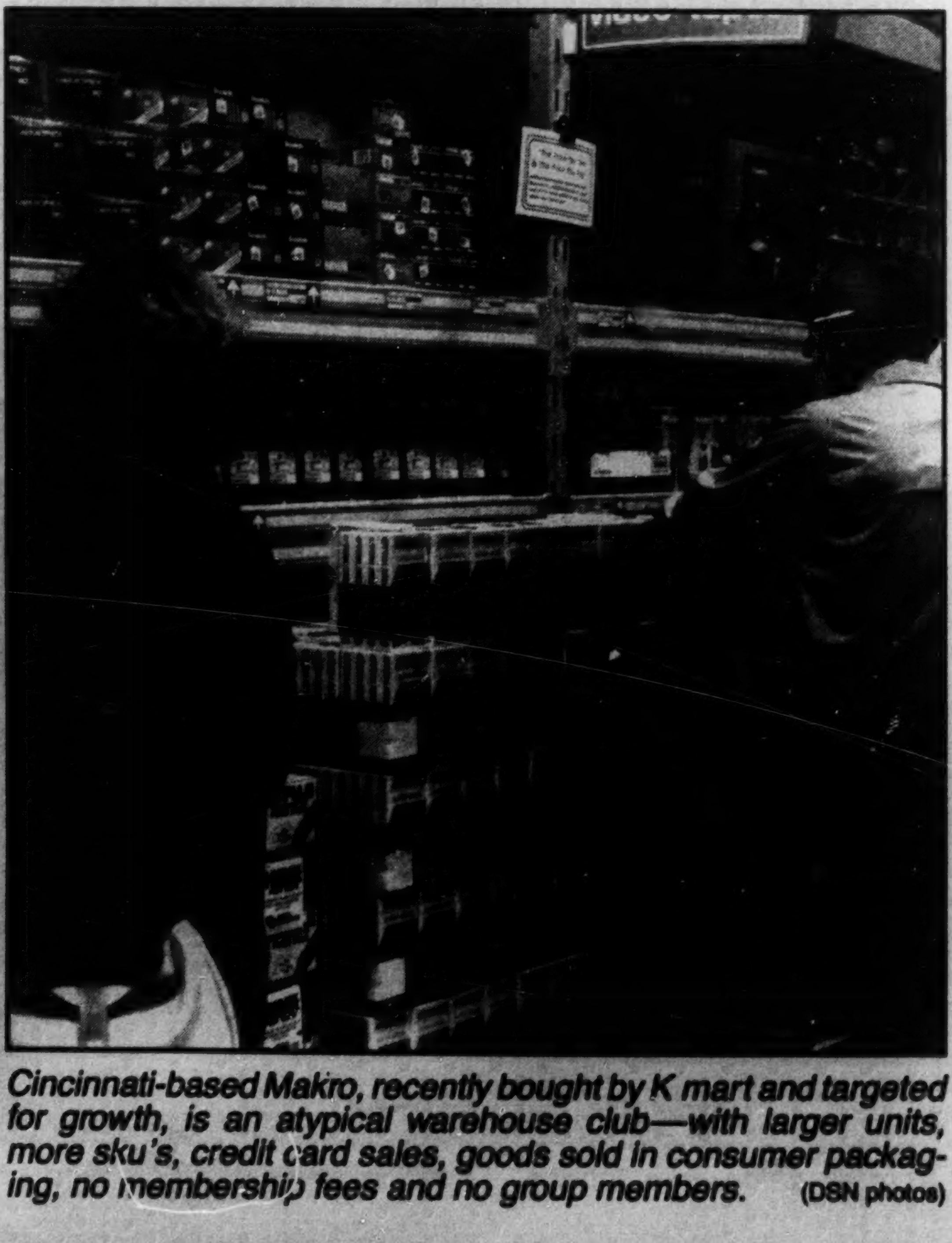
Top Membership Warehouse Clubs

Chain	Sales (In Millions)		Percent Change	Number of Stores		
	1987	1986		1/88	1/87	Proj. 12/88
Price Club San Diego, Calif.	$3,323	$2,667	24.6%	37	34	41
Sam’s Bentonville, Ark.	2,711	1,678	61.6	84	49	102
Costco, Seattle, Wash.	1,370	747	83.4	43	38	52
PACE, Aurora, Colo.	940	595	58.0	32	25	39
BJ’s Wholesale Club Natick, Mass.	575	350	64.3	19	16	22
Makro, Cincinnati, Ohio	300	300	0.0	4	4	6
Price Savers Salt Lake City, Utah	300	174	72.4	12	6	17
The Wholesale Club Indianapolis, Ind.	272	158	72.2	15	11	18
Warehouse Club, Niles, Ill.	228	157	45.2	12	14	12
Buyer’s Club Englewood, Colo.	120	80	50.0	4	3	7
American Wholesale Richardson, Texas	100	50	100.0	4	2	2

Source: DSN *research*



Colorado-based Buyer’s Club is one of the many membership warehouse clubs proliferating in Southern California’s fertile sales climate. The chain is projecting three new units by year-end.



Cincinnati-based Makro, recently bought by K mart and targeted for growth, is an atypical warehouse club—with larger units, more sku’s, credit card sales, goods sold in consumer packaging, no membership fees and no group members. (DSN photos)

Toy Retailers Battle Back After Slow Year

Nationwide DSN Report

Toys "R" Us and Kay-Bee Toys posted strong results for 1987, although for most retailers the year was punk. And for toy manufacturers, the year was a disaster, with Coleco suffering severe losses and Worlds of Wonder struggling to survive in Chapter 11 bankruptcy.

At retail, toy sales were basically flat at $12.5 billion in 1987, estimated the Toy Manufacturers of America, a trade group. Unit sales increased 13 percent, however, meaning that unit prices declined as back-to-basics became the catchword.

With flat sales, any market share that any toy specialty retailer gained came at the expense of someone else. And that someone is the general merchandise discount store, retail analysts say.

The extremes in 1987 results are glaring. Industry leader Toys "R" Us, Rochelle Park, N.J., enjoyed a 21 percent gain in pre-tax profits and a 28.3 percent jump in sales. On the other hand, Toys Plus, once of St. Charles, Mo., ran into unexpected head-to-head competition with TRU in Texas, and burst its bubble in bankruptcy last January. Its 34 stores and $27.2 million in 1986 sales are ancient history.

Child World Posts 19.1% Sales Rise

Despite intense price-cutting competition with TRU, Child World, No. 2 in sales, logged a 25 percent increase in pre-tax profits to $26 million from $20.8 million in 1986. That still left Child World below its 1985 profit level of $26.9 million. Child World also captured a larger market share with a 19.1 percent sales increase.

Taking the place of Toys Plus as developing chains are Tons of Toys, Wareham, Mass., which vows to enter only secondary markets that are too small for TRU, and Wisconsin Toys, Milwaukee, Wis., which seeks to carve out a market niche with its closeout toys under the name Toy Liquidators.

Along with TRU, No. 3 Kay-Bee, the toys division of Melville Corp., also enjoyed a banner year. Sales rose 25.3 percent to $610 million in 1987 from $487 million in 1986. Kay-Bee's strong profit performance accounted for most of the 24 percent operating profit increase to $102.8 million in '87 from $82.9 million in '86 for Melville's combined toy and household furnishing division.

Kay-Bee and TRU are the two major factors in toy retailing, said Robert Schweich, retail analyst for Wertheim Schroder, New York. TRU, of course, takes the supermarket approach, while Kay-Bee follows the convenience store route, usually locating in malls, the analyst said.

The Lionel Corporation, Philadelphia, which is the fourth-largest toy retailer, was marginally profitable last year, Schweich said. Pre-tax profits fell 36.6 percent to $6.8 million in 1987 from $10.7 million, although sales rose 19.9 percent to $344 million from $287 million in 1986.

A change in accounting rules regarding inventories allowed Lionel to report a net income of $5.8 million, or 43 cents a share, down from $8.7 million and 65 cents a share in 1986.

Lionel operates 78 toy supermarkets under the names Lionel Kiddie City, Lionel Playworld and Lionel Toy Warehouse in 16 states.

For Greenman Bros., the only other major player in toy retailing, 1987 also was a weak year. Combined wholesale and retail sales slipped to $242.7 million from $244.2 million in 1986. Its 321 Circus World and four Play World retail stores accounted for 63 percent of revenues. Same store sales were flat last year.

Company losses diminished to $2.9 million, or 48 cents a share, in the year ended Jan. 30, 1988, from $3.5 million and 59 cents a share for fiscal 1986.

Among cost-cutting steps, Greenman slashed top executive salaries by 20 percent for 1988 and froze most executive salaries for 1989. In addition, it closed 14 stores last year and opened six, a net decline of eight. No new stores for 1988 appear on its agenda.

Toy King, Orlando, Fla., is retrenching even more dramatically. Operating closeout stores mostly in factory outlet malls, Toy King is down to 44 stores from a 1985 high of 58. Sales last year shrank to $12.5 million from $15 million in 1986 and $19 million in 1985. The privately owned chain lost an undisclosed amount of money for each of the last two years, remarked its new president, Robert King.

Toy & Sports Warehouse, White Plains, N.Y., which emerged from Chapter 11 bankruptcy in 1984, also cut back in 1987, closing one store. That trimmed sales to $9 million in five stores from $11 million and six units in 1986. Toy & Sports is replacing that store in 1988, however, and expects to add one more in the bargain.

Toys Plus went under because it opened stores in Texas cities where it never expected to bump heads with TRU, said industry analyst Schweich. But TRU opened in the same markets anyway, he said. In store count, Texas was the favorite state for both chains.

Tons of Toys, which logged $10.4 million in sales for the last eight months of 1987 in 12 stores, hopes to avoid that fate by opening stores in New England towns that are too small for TRU. Going public last May, TOT reported net earnings of $377,788, compared to $202,168 for the same months of 1986. TOT plans to open eight more stores in 1988.

Wisconsin Toys, which started 1988 with 24 stores, plans to open 27 more by the end of the year for a total of 51. Sales for its closeout chains, Toy Liquidators and Toys Unlimited, totaled $9 million last year and generated net profits of $682,000.

Karl's Toys, owned by Merchants West, Long Beach, Calif., also appears to be making money in a fragmented toy retailing industry, despite dominance by the giants. Sales rose to $28 million in 1987 from $21 million the previous year. Profits rose 22 percent from 1986, company chairman Joseph Chang said, although he declined to release actual figures for the privately owned company.

Karl's plans to add two stores to its 1988 total of 27.

Top Toy Specialty Chains

Chain	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change	Number of Stores 1/88	Number of Stores 1/87	Average Store Size (In Sq. Ft.)
Toys "R" Us* Rochelle Park, N.J.	$3,137	$2,445	28.3%	424	338	46,000
Child World Avon, Mass.	749	629	19.1	149	134	36,000
Kay-Bee Pittsfield, Mass.	610	487	25.3	676	639	4,000
Lionel Leisure Philadelphia, Pa.	344	287	19.9	78	65	93,000
Greenman Bros. Farmingdale, N.Y.	153	154	(0.6)	325	310	4,000
K&K Toys Norfolk, Va.	55	50	10.0	114	104	3,000
Karl's Toys Los Angeles, Calif.	28	21	33.3	27	26	5,500
Hobby Center Toys Holland, Ohio	13	12	8.3	26	26	2,400
Toy King/Toys & Gifts Outlet Orlando, Fla.	13	15	(13.3)	44	54	3,000
Tons of Toys Wareham, Mass.	10	5	100.0	12	1	12,000
Wisconsin Toys Milwaukee, Wis.	9	2	350.0	24	4	6,000
Toy & Sports Warehouse White Plains, N.Y.	9	11	(18.2)	5	5	16,500

**Toys "R" Us includes Kids "R" Us.*

Source: DSN research

At retail, sales were flat at $12.5 billion, unit sales increased 13%, however, meaning that unit prices declined. (DSN photo)

Apparel Off-Pricers Shake Off Shakeout Woes

Nationwide DSN Report

Despite a major softening in the women's apparel business during the second half of last year, most off-price apparel chains recorded healthy sales gains during 1987.

While apparel specialty chains like The Limited and Charming Shops, among many others, limped along to fiscal year-end with flat to modest 1987 sales, the top 11 off-price chains, as shown in the accompanying chart, saw sales jump 17.2 percent to $5.9 billion.

The shakeout among off-pricers over the last several years didn't claim any major casualties in 1987. And a couple of major off-pricers that struggled in '86 turned things around last year by refocusing their strategies on providing consumers with real value.

TJX Cos. Tops Marshalls as No. 1

Mainly due to the 22.7 percent sales growth experienced by T.J. Maxx during the fiscal year, TJX Cos.—which includes T.J. Maxx, Hit or Miss and the cataloger Chadwick's of Boston—is now the No. 1 apparel off-price company, topping Marshalls.

TJX, now a public company (Zayre Corp. retains a majority ownership), was also one of the most profitable off-pricers last year, posting a 27.7 percent increase in real net income, along with a 17.8 percent sales gain.

Unlike the family-apparel oriented T.J. Maxx, Hit or Miss, being a more high-fashion oriented women's wear off-pricer, was hurt by the women's apparel slowdown during the last half of the year. Hit or Miss improved its sales by a mere 2.9 percent (estimated) last year. Ben Cammarata, currently acting president of Hit or Miss (as well as being president and ceo of TJX Cos. and chairman of T.J. Maxx), said recently that he instituted changes at Hit or Miss to make it "less vulnerable to the whims of fashion. We want to move the chain to more value price points."

Marshalls is a chain that turned things around in '87. The chain doubled its sales growth last year (13.8 percent gain in 1987 compared to a 7 percent 1986 rise) to top $1.6 billion in sales, and profits also improved.

Marshalls, like many other off-pricers, must compete for department store and specialty store customers, offering the high-visibility brands that customers want. Marshalls had gotten away from that and wasn't rigorous in upscaling its store environment.

Now the huge off-pricer, which added key top management last year (see Marshalls chain profile, page 151), is back on track, having refocused its merchandise mix to higher-end brands and labels.

Ross also improved its store-for-store sales last year and its earnings stabilized after an $11.7 million loss before taxes in 1986. Since shifting to a more family-oriented apparel strategy and adding cosmetics and fragrances, petites, and large sizes for men and women, Ross staged a mini-comeback in 1987. Comparable store sales were up 7 percent—8 percent in the first quarter, 11 percent in the second, no increase in third quarter and a 9 percent increase in fourth quarter.

Growing at a rate in league with T.J. Maxx was Burlington Coat, which saw sales jump 25.6 percent last year. The off-pricer had a particularly strong fourth fiscal quarter and holiday selling period, considering the general apparel industry softness, and has been aggressively upscaling its store environment. Net income also improved by 16.9 percent to $20.3 million last year.

Loehmann's was an undistinguished 1987 performer, growing by just 3.4 percent after a 9 percent sales growth in 1986. Parent May Co. has been closemouthed about the chain. Store growth plans are modest.

Top management of Filene's Basement are attempting to take the Massachusetts institution private. Campeau Corp., as is the case with Gold Circle and MainStreet, announced early on that it wasn't interested in retaining the chain. The Basement had a respectable 1987, with a comparable store sales increase of 12.1 percent (it opened no new units last year and none are planned for this year).

From October 1986 through October of last year, Syms quietly added about 50 percent to its existing selling space. In addition to a 14.3 percent sales jump last fiscal year, Syms also registered a 20 percent jump in net income to $17.8 million from $14.8 million in 1986. It doubled the size of its Bergen County, N.J., unit, opened a new distribution center and greatly improved its internal systems to better track sales.

Kids "R" Us went through the roof last year, with estimated sales up 100 percent to $250 million. The off-price children's apparel division of Toys "R" Us will be opening 10 units this summer alone in a new market, Southern California, and sales are projected to hit $400 million by the end of this year.

Clothestime Posts 11.2% Sales Gain

Clothestime had a tough second half last year, due mainly to the women's apparel slowdown, but the California-based off-pricer managed a healthy 11.2 percent sales gain overall in 1987.

The Dress Barn fared better, recording a 28.1 percent sales increase last year. In fiscal 1988, estimates call for the women's apparel off-pricer to top $200 million for the first time. Net income grew to $12.9 million from $9.2 million in 1986.

The $28 million purchase of NBO Stores, which has been a steadily growing chain, by Dylex Limited of Canada, was recently completed. Sales were up last year by 17.8 percent to $86 million.

One-price apparel stores also experienced strong growth last year and have carved out a niche below the above mentioned off-pricers and above the full-line closeouters.

Top Off-Price Apparel Chains

Chain	**Sales** (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1987	1986		1/88	1/87	
TJX Cos., Framingham, Mass.	$1,644	$1,395	17.8%	750	687	—
T.J. Maxx	1,288	1,050	22.7	265	226	25,000
Hit or Miss	350	340	2.9	485	461	3,500
Marshalls, Wakefield, Mass.	1,603	1,409	13.8	286	261	29,000
Ross Stores, Newark, Calif.	576	534	7.9	131	121	3,000
Burlington Coat Burlington, N.J.	491	391	25.6	104	87	55,000
Loehmann's Bronx, N.Y.	334	323	3.4	80	90	15,000
Filene's Basement Wellesley, Mass.	278	248	12.1	22	22	25,000
Syms, Lyndhurst, N.J.	255	223	14.3	18	17	50,000
Kids "R" Us Rochelle Park, N.J.	250	125	100.0	74	43	20,000
Clothestime Anaheim, Calif.	179	161	11.2	338	263	4,000
Dress Barn Stamford, Conn.	173	135	28.1	302	235	4,000
NBO Stores Secaucus, N.J.	86	73	17.8	28	21	8,500

Source: DSN research

The extraordinary success of T.J. Maxx fueled TJX Cos.' climb to the top of the off-price apparel industry in 1987. (DSN photo)

Sporting Goods Stores Grow in Size and Scope

Nationwide DSN Report

Bigger is better, sporting goods retailers seemed to be saying in 1987. The drive to mega-retailing was a two-pronged attack. On one hand, new warehouse-style operations like Fort Lauderdale-based Sports Authority sprang up around the country; on the other, existing regional chains merged into larger conglomerates through acquisitions, mainly those engineered by California-based Thrifty Corp., which is now poised to become the country's second largest sporting goods specialty retailer in store count.

Re-emergence of Oshman's

The year was also marked by the reemergence of troubled Oshman's, presently second in store count to Herman's in the specialty sporting goods field. Suffering from declining sales in its native Oil Patch market, and evidently unhappy with its ultra-traditional look, the company formed a new division, Super Sports, aimed at capturing a share of the upscale sports equipment and apparel market. In a daring move, Oshman's opened the first store in Princeton, N.J., virtually in rival giant Herman's back yard.

The Princeton store (two more are scheduled to open, one on Long Island and one in northern New Jersey, probably Union) is a retail marvel. Drawing on the high-tech look of upscale boutiques, Super Sports' strategy appears to be to apply a futuristic soft lines orientation to what has been a relatively staid field. The store features a "shop-within-a-shop" layout based around a central racetrack. While all hard line products are represented, the accent is distinctly on name-brand fashion and dual-purpose apparel.

Super Sports to Open 12 Units in '88

Simultaneously, the company upgraded the apparel sections of its traditional stores, choosing to oncentrate on name-brand fashion-forward goods. Whether these strategies can reverse the chain's recent fortunes (sales increased only slightly, to $332 million, last year after a modest 9 percent increase in 1986) is open to question, but initial results from Super Sports, which recently opened regional headquarters near the Princeton store, are reportedly "very positive." The company plans to open about 12 new stores this year, of which several will probably be Super Sports outlets.

Herman's, the nation's largest chain, continued the rapid growth that nearly doubled the company's size two years ago. After adding nearly 80 stores in 1986, the company added another 40 or so last year. This year, growth will slow somewhat, to about 20 stores. The huge bulge of store openings was due primarily to entering new markets, making Herman's the only truly national chain in this market.

The company was purchased by an English concern, Dee Corp., and no longer breaks out its financial results. However, the company apparently increased sales by some 15 percent, to $762 million, last year. The company presently operates about 242 stores.

The third major player nationally is the sporting goods division of drug giant Thrifty Corp. The company has expanded its primarily Western store base by acquiring two independent chains in Colorado, Gart Brothers and Dave Cook Sports, and Niles, Mich.-based Michigan Sporting Goods.

Sportmart Adds 5 Megastores in '87

Niles, Ill.-based Sportmart, which added five of its 40,000-square-foot megastores over the past year, grew significantly in 1987 sales, to an estimated $212 million from an estimated $141 million in 1986.

The biggest news in 1987 was the decline of All-American SportsClub, the Los Angeles-based warehouse retailer. The chain, founded by HomeClub founder Bob McNulty, had countered rumors of impending store closings and vendor dissatisfaction with the addition of former Home Depot executive and merchandising whiz Pat Farrah early last fall.

Within two months, Farrah had left, and the company entered Chapter 11 shortly thereafter. Whether All-American SportsClub, which had racked up some impressive sales figures during its brief life, can survive is open to debate, but the concept gave birth to other warehouse approaches.

K mart to Debut Sports Giant

Included is a K mart-backed entry into specialty sports retailing, Sports Giant. K mart's department stores are considered the nation's leading sporting goods retailer, particularly in athletic equipment like baseball gloves, basketballs and so on, so the move seems to be a natural. So far, however, no actual stores have opened, and an attempt to purchase part or all of All American SportsClub was rejected. SportsClub president Bob McNulty said at the time that an offer had been made, presumably by K mart, but that it was extremely low.

Overall, the sporting goods industry had a strong 1987. Sales of outdoor goods, like camping equipment, were particularly strong. A beautiful 1987 spring, nationwide, contributed to an above-projection year in those categories, and overall, the industry showed a gain of 5 percent.

Prospects for 1988 are, so far, positive. Spring '88 was a near total bust, with cold, wet weather through much of the country, but sales rebounded strongly in late May and early June. U.S. consumers have come back to sports (as opposed to exercise), and any outdoor activity seems to be on the upswing. The strong rebound sports products experienced last year even revived the dormant exercise equipment market, which settled down to become a highly profitable basic in the category.

Also coming back was the near-dead hunting market, which grew steadily throughout the fall. Fishing, which is experiencing a major boom, was one of the fastest growing categories last year and kept up the rate this year.

Pressure from Discounters

However, chains will be under increasing pressure this year. Major discount stores like K mart and Wal-Mart have re-emphasized their sporting goods selections, and others are jumping into the market. This will keep extremely strong price pressure on the specialty stores, particularly in the important entry-level products like fishing kits and starter rifles.

On the other end of their business, chains are facing competition in sports wear from discount specialty outlets, which have boosted their sports apparel offerings and managed to acquire many of the branded products sporting goods retailers have considered their exclusive domain.

Top Sporting Goods Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1987	1986		1/88	1/87	
Herman's Carteret, N.J.	$762	$630	21.0%	242	200	10,000
Thrifty Corp. Los Angeles, Calif.	494	359	37.6	160	149	NA
Oshman's Easton, Texas	333	323	3.1	213	214	10,000
Sportmart Niles, Ill.	212	141	50.4	18	12	40,000
Academy Houston, Texas	64	58	10.3	22	18	NA
Irving's Sport Shops Springfield, Va.	15	13	15.0	18	18	4,000

Herman's includes Sunset Sports.
Thrifty Corp. includes Big Five, Dave Cook, Gart Bros., Michigan Sporting Goods and Casey's Sporting Goods chains.

Source: DSN research

With the increasing specialization in the sports shoe industry, the wide selection and top brand names sold by sports chains have given them a market advantage.

Despite poor spring 1988 weather and supply shortages, sales of camping equipment have remained strong after a record-setting year in 1987. (DSN photos)

ANNUAL REPORT — OFFICE SUPPLY WAREHOUSES

Office Supply Megastores' Sales to Hit $500M

Nationwide DSN Report

Last year, office products megastores became a distinct retail industry segment with about eight retailers operating stores across the country.

Today, there are 13 retailers with about 90 stores generating sales estimated by industry sources at between $300 million and $400 million. By the end of this year, *DSN* projects the industry will have more than 150 outlets with sales topping $500 million.

So far this year, five new retailers have joined the fray and the first of the megastore operators, Office Depot, Boca Raton, Fla., became a public company. Staples, the first office products supply retailer to open a soup-to-nuts supply store, is expected to go public next year.

Office supply megastores service small- to mid-size businesses. They generally average 15,000 square feet to 20,000 square feet and carry more than 5,000 sku's of office-related merchandise discounted up to 70 percent off manufacturer list prices. Many claim a "bare bones" merchandising approach in the warehouse format, but some are already upgrading the look of their stores to reflect customer shopping preferences.

Services such as printing, copying, facsimile machines, delivery and catalog shopping are available, generally for an additional fee.

In the last few months, several new retailers entered the megastore business, including Office Shop Warehouse, a division of Ames' G.C. Murphy Stores, and Office Square, part of K mart's Builders Square division.

In addition, two traditional office stationers, Arvey Paper & Supply in Chicago and Jaffe's of Miami both redefined their business objectives and are now expanding their chains with the megastore concept.

Office Supply Megastores

Chain	First Store Opened	Number of Stores		Store Size (In Sq. Ft.)	SKUs
		1/88	12/88*		
Staples Newton, Mass.	May 1986	16	24	15,000-20,000	6,000
Office Depot Boca Raton, Fla.	November 1986	14	26	19,000	6,500
Office Station Carol Stream, Ill.	January 1987	1	1	13,000	2,000
Office Club Concord, Calif.	January 1987	5	17	20,000	2,000
Office America Richmond, Va.	August 1987	1	5	26,000	5,000
WORKplace St. Petersburg, Fla.	November 1987	3	11	20,000-25,000	9,000
Office Shop Warehouse McKeesport, Pa.	March 1988	1	4	15,000	6,400
Office World Great Neck, N.Y.	April 1988	2	8	25,000	5,000
Bizmart Arlington, Texas	May 1988	3	8	20,000	4,000
OfficeMax Cleveland, Ohio	June 1988	2	4	25,000	6,000
Office Square San Antonio, Tex.	Summer 1988	0	1	25,000	7,000
Jaffe's Miami, Fla.	1963†	7	11	15,000-16,000	8,000
Arvey Paper & Office Supplies Chicago, Ill.	1970†	36	40	8,000-26,000	6,000

**projected*
†First megastore opened in 1987

Source: DSN research

ANNUAL REPORT — DEEP DISCOUNT DRUG CHAINS

Discount Drug Chains Target Full-Liners' Categories

Nationwide DSN Report

Deep discount drug retailers are continuing an aggressive expansion pace this year, placing additional pricing pressure on full-line discounters.

Carrying an array of products—from health and beauty aids, over-the-counter items, stationery, household cleaners and limited food items—deep discount drug stores are moving in on important discount store categories.

While these areas, because of low margins, are not great money makers for discounters, they are often promoted as traffic builders and do account for some 5 percent to 10 percent of sales.

However, like membership warehouse clubs, many customers choose to shop deep discount drug stores on a limited basis by stocking up on items and visiting only once or twice a month. Many discounters, on the other hand, can draw customers fairly often because of weekly circulars.

Discounters and other specialty stores are closely monitoring the deep discount drug concept, particularly its potential to siphon off sales. While much of a deep discounter's business is drawn from traditional drug retailers, some 20 percent to 30 percent comes from discounters, sources estimate.

Leading the deep discount drug store pack are three Midwest-based retailers—Drug Emporium, Phar-Mor and F & M—which account for over half the industry's volume.

Drug Emporium, the largest with 139 company-owned and franchised stores nationwide, added 23 stores in new and existing markets last year. Expanding the chain's coast-to-coast coverage were stores in Mobile, Ala., Albuquerque, N.M., and Nashville and Knoxville, Tenn.

This year, Worthington, Ohio-based Drug Emporium expects to open some 30 to 40 stores primarily in existing areas, which will take it beyond the approximately $800 million in sales it reached last year.

With sales at half this amount, Youngstown, Ohio-based Phar-Mor is outpacing Drug Emporium's growth rate. The chain added 52 stores last year, bringing it to a total of 74, and has plans of adding another 50 this year and 50 more in 1989.

The third largest chain, 54-store F & M, is also edging into numerous markets as it looks to become a 100-store chain by 1990.

Fueled mainly through acquisitions, the Warren, Mich.-based F & M doubled its number of stores last year. Much of the growth came from the purchase of 10 former Pathmark Super Drug stores from Supermarkets General Corp., a deal which brought F & M to the East Coast.

Other players beyond the three leaders include Marc's, Rockbottom, Freddy's, Howies and Drug Palace. While most of the deep discounters have backing from traditional drug store companies or operate independently, the ninth largest chain, dot Discount Drugs, has Wal-Mart behind it for support. Begun in 1983 as a Wal-Mart experiment, dot doubled in size last year to reach 12 stores, and had estimated sales of $46 million.

Top Deep Discount Drug Stores

Company (parent)	Headquarters	Sales (In Mils.) 1987	Stores 1987
Drug Emporium	Worthington, Ohio	$800	139
Phar-Mor	Youngstown, Ohio	400	74
F & M	Warren, Mich.	330	54
Marc's	Cleveland, Ohio	182	12
Rockbottom	Port Washington, N.Y.	175	25
Freddy's (Melville)	Woonsocket, R.I.	95	14
Howies (SDM)	Toronto, Canada	55	12
Drug Palace (Rite Aid)	Shiremanstown, Pa.	49	28
dot (Wal-Mart)	Bentonville, Ark.	46	12
Rx Place	New York, N.Y.	44	8
Drug World (SupeRx)	Cincinnati, Ohio	40	12
Cost Cutters (Community Distributors)	Somerville, N.J.	39	9
Drug Castle (Brown)	Springfield, Ohio	38	10
A.L. Price (Perry)	Detroit, Mich.	36	10
Wonder World (Pay Less NW)	Wilsonville, Ore.	30	14
Bud's (Peoples)	Alexandria, Va.	29	9
Value Giant (Pay Less NW)	Wilsonville, Ore.	25	4
Joel and Jerry's	Largo, Fla.	22	6

Source: Drug Store News 1988 survey, DSN research

HYPERMARKETS ANNUAL REPORT

1988: The Year of Hypermarkets in the U.S.

Nationwide DSN Report

1988 could go down as the year of the hypermarket.

This year is liable to see the launching of four hypermarket chains in addition to the seven businesses that are planning to or already operating these combined grocery and general merchandise one-stop-shopping behemoths. And this fast-track growth comes on the heels of just a single hypermarket store, Biggs, in Cincinnati, until this past December, when Wal-Mart and Cullum Cos., a food wholesaler, joined forces to unveil Hypermart USA in Garland, Texas, a suburb of Dallas.

Wal-Mart quickly followed its pioneering move by opening a completely discounter-run Hypermart USA two months later in Topeka, Kan., with another two originally scheduled to open in the fall. Two of the four were planned as joint Wal-Mart/Cullum ventures and two were to be run just by the discounter with food sourced from another grocery wholesaler.

But the success of the first two Hypermart USAs has resulted in Wal-Mart canceling plans for a unit in the Ferguson, Mo., suburb of St. Louis. Wal-Mart underestimated the amount of parking it would need for a hypermarket in Ferguson.

With no additional parking space available, Wal-Mart decided to cancel the hypermarket and instead use the site for a Sam's Wholesale Club unit, which need less parking space.

Hypermart USA's success—the two stores together will do about $80 million in sales in their start-up year—helps explain the growing interest in the concept and the reason why traditional discounters like Harts, K mart and ShopKo have launched or are planning to start such ventures.

That's not to say that hypermarkets are an assured success. After all, Biggs, the first traditional European-style hypermarket opened in the United States, has been around since 1984 and its lackluster sales and red ink in the ensuing years have only been recently overcome. Biggs is due to open another unit in Cincinnati this month and one in Florence, Ky., in the fall.

Biggs was launched by Euromarché, the second-largest operator of hypermarkets in Europe. Its France-based rival Carrefour planned to open its first units in 1987 in Philadelphia and the Brookhaven suburb of New York City, to be followed by about 20 more stores in the Northeast over the next few years. Construction and zoning delays resulted in the Philadelphia unit opening in February, with Brookhaven due to be unveiled next year.

Hypermarkets in the United States

Company (Parent)	**1987 Sales** (In Millions)	**Opening Date**	**Current Number of Units in Market**	**Proposed Markets**
Biggs (Euromarché, Super Valu)	$90	October 1984	1 in Cincinnati, Ohio	Cincinnati, Ohio Florence, Ky.
Hypermart USA (Wal-Mart, Cullum Cos.)	Start-up	December 1987	1 in Garland, Texas 1 in Topeka, Kan.	Arlington, Texas Kansas City
Carrefour	Start-up	February 1988	1 in Philadelphia, Pa.	Brookhaven, N.Y.
Big Bear Plus (Harts, Big Bear)	Start-up	June 1988	1 in Bridgeport, Conn. 1 in Wintersville, Ohio	Wapakoneta, Ohio
American Fare (K mart, Bruno's)	Start-up	Winter 1988	0	Stone Mountain, Ga. Charlotte, N.C.
Auchan (Auchan)	Start-up	Fall 1988	0	Chicago, Houston
Twin Valu (ShopKo, Super Valu)	Start-up	Spring 1989	0	Cuyahoga Falls, Ohio Akron, Ohio

Source: DSN research

HOME SHOPPING SERVICES ANNUAL REPORT

Passive TV Shopping in Shakeout; Interactive Systems Testing

Nationwide DSN Report

The electronic retailing field is undergoing both a shakeout and a start-up phase at the same time.

The shakeout involves the passive television shopping segment, which has already seen the demise of about a dozen services during the past year. The net result is that this segment seems to be narrowing down to about a half dozen national teleretailing services and a handful of local and limited-reach telemerchants reaching consumers either on one cable system or a mix of broadcast and cable stations.

The start-up phase involves both interactive cable teleretailing and interactive computer shopping, although CompuServe's The Electronic Mall has been offering a videotex computer shopping service for almost 30 months.

In the former, one company, Telaction, has just launched its cable service, while two others, Main Street and the Cable Catalog Store, are in test modes.

In the latter, Prodigy last month began offering its innovative computer shopping and information service in three markets, Atlanta, San Francisco and Hartford, Conn., and expects to be in New York City and 16 other major metro markets by the end of next year.

The only unaffected portion of the business is the telephone and computer shopping segment, where Comp-U-Card has grown its electronic shopping service in the last four years from 200,000 customers to its current mix of 2.8 million telephone shoppers and 70,000 computer shoppers.

Passive television shopping, including the failed venture, was a $1 billion business last year, with volume expected to grow about 50 percent to $1.5 billion in 1988 and reach about $2.3 billion by the end of the decade.

Interactive cable and computer services are expected to generate about $1 billion in sales by 1990.

Electronic Shopping Services

Passive Television Shopping

Company	**Sales** (In Millions)		**Cable Systems Carrying**	**Homes Passed** (In Millions)
	1987	**1986**		
Home Shopping Network St. Petersburg, Fla.	582.1	160.2	1,300	14.9
Cable Value Network Minneapolis, Minn.	127.6	27	1,700	18.0
QVC West Chester, Pa.	112.3	2.2	800	13.0
America's Shopping Channel San Diego, Calif.	19	—	5	1.0
TelShop Santa Monica, Calif.	7.6	—	700	10.0
The Fashion Channel Carson, Calif.	5.5	—	700	7.7
Shop Television Network Los Angeles, Calif.	NA	NA	100	1.0

Interactive Cable Shopping

Telaction Schaumburg, Ill.	Start-up on two cable systems, 40,000 homes, 10 suburban Chicago markets
Main Street Stamford, Conn.	Start-up on one cable system in Newton, Mass.
Cable Catalog Store Hatboro, Pa.	Start-up on one New Haven, Mich., cable system, 2,000 homes

Interactive Computer Shopping

Company	**Sales** (In Millions)		**Number of Retailers**	**Number of Subscribers**
	1987	**1986**		
The Electronic Mall Columbus, Ohio	NA	NA	90	400,000
Prodigy White Plains, N.Y.	June 1988 start-up in three markets: Atlanta, San Francisco and Hartford, Conn.			

Telephone and Computer Shopping

Company	**Revenues*** (In Millions)		**Number of Members**		**Number of Suppliers**
	1987	**1986**	**Phone**	**Computer**	
Comp-U-Card Stamford, Conn.	138.1	84.1	2.8 mil.	70,000	400

**Membership and service fees only*

Source: DSN research

ANNUAL REPORT K MART

K mart Committed to Discount and Specialty Stores

	1987	1986	% Change
Sales (In Millions)	$22,140	21,308	3.9%
Earnings (In Millions)	1,380	1,310	5.3
Stores	2,223	2,204	0.9

TROY, Mich. — K mart's plan to become a power retailer kicked into high gear in 1987 and the pace is only expected to accelerate in the years ahead.

The nation's largest discount retailer pressed forward with its computerization and marketing programs, store expansion and refurbishing schedule, and general upscaling in everything from store presentation to merchandising, all intended to better serve and expand its customer base and improve the bottom line.

The year 1987 marked some very substantial changes for the nation's top discount retailer. K mart sold its 76 Kresge and Jupiter stores to McCrory Corp. so it could focus all its attention on expanding its discount department stores and specialty retail business. And Joseph Antonini, K mart's president and chief executive officer, succeeded chairman Bernard Fauber, who retired.

Fauber remains with K mart as a member of the company's board of directors and as chairman of K mart's executive committee.

In 1987, K mart also announced plans to open a hypermarket, American Fare, in a joint venture with Bruno's of Birmingham, Ala., a 111-unit supermarket operator; brought on author/lifestyle and home entertaining guru Martha Stewart as the spokeswoman and consultant for the newly-formed home fashions division; and entered TV shopping by making non-K mart merchandise available to the Consumers Discount Network.

The pace hasn't slowed any since the close of 1987.

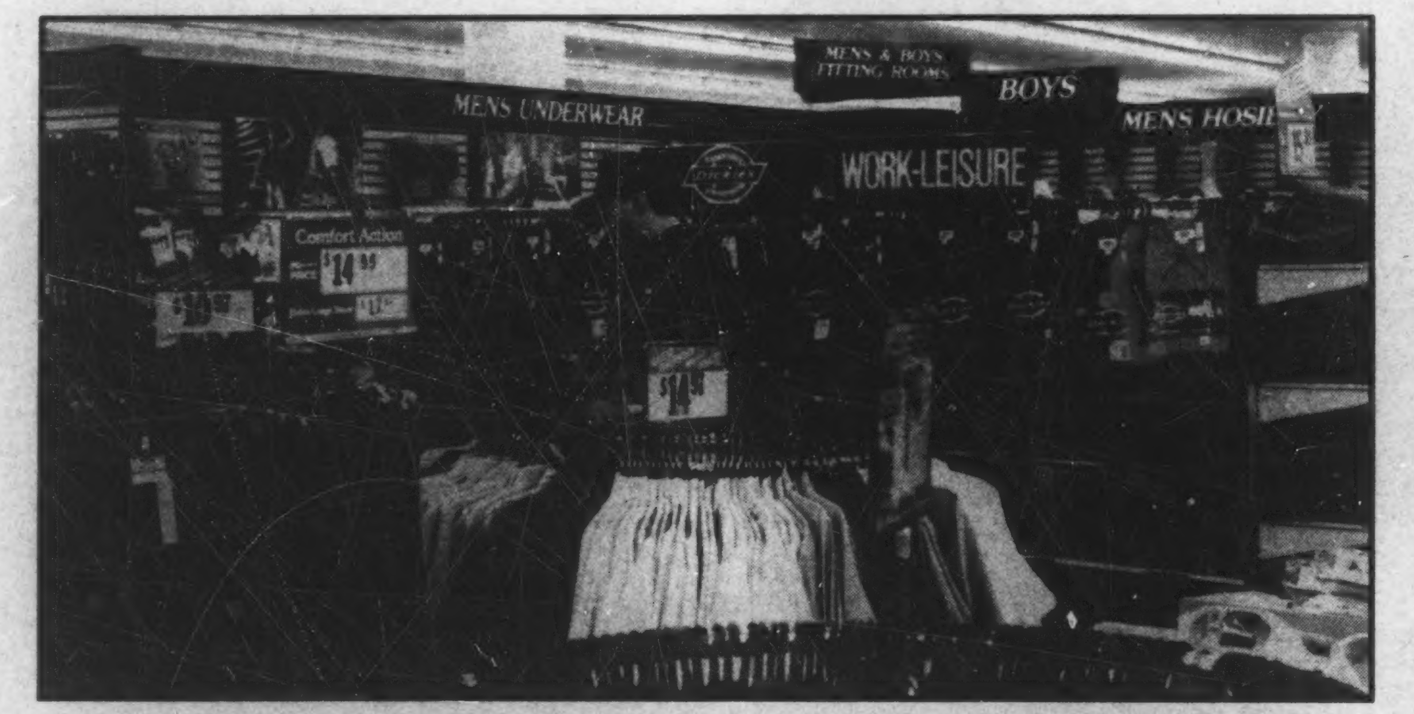
So far this year, K mart purchased a 51 percent ownership stake in Makro, the four-unit, Cincinnati-based warehouse club; completed plans for Office Square, an office products megastore due to open its first unit in Chicago this summer; and announced plans to start a sporting goods chain, Sports Giant.

Earlier this year K mart split its $3.4-billion specialty retailing division into three separate entities after Frederick Stevens, executive vice president, specialty retailing, suddenly resigned to head the Fred Meyer organization.

Replacing Stevens is Larry Parkin, formerly executive vice president for U.S. K mart stores, who is now executive vice president for warehouse and grocery operations, a new position. Parkin is overseeing the development of American Fare, scheduled to open in the Atlanta area late this year, Makro, Builders Square, Office Depot and Sports Giant.

K mart's other two divisions, Pay Less Drug Stores Northwest and Walden Books, report directly to Antonini.

The company's store expansion program is also in high gear.



Men's wear at K mart was upgraded to reflect today's most popular selections. In the mid-size stores, the department was moved next to sporting goods. (DSN photo)

K mart has announced that it will open 50 new K mart stores, more than in the previous two years combined, remodel 140 stores to the new, more upscale format, add another 175 Readers Markets, 60 to 80 more units in the Walden Books division, 25 new Builders Square's, and 30 Pay Less Drug Stores.

American Fare's first unit, in Atlanta, will be closely followed by four others by 1990. And four-unit Makro will be expanded rapidly, also. The warehouse club will have six units by the end of 1988 and 11 by year-end 1989.

Later this year, K mart plans to unite its second American Fare with a Builders Square on a 34-acre site in Charlotte, N.C.

Sales for 1987 rose 7.6 percent to $25.6 billion, $22.1 billion from K mart stores and $3.4 billion from its specialty retailing operations. Comparable store sales rose 4.1 percent for the year. Income from continuing operations before income taxes, rose 14 percent, to $1.17 billion, slower than the 36 percent rise recorded in 1986.

K mart opened 36 new discount stores in 1987 for a total of 2,223 units by year-end, and 258 stores in its specialty retailing division.

Sales within the company's specialty retailing division grew by $1 billion, in 1987, or 39 percent; operating income soared 103.6 percent, to $75 million.

K mart became listed on the Tokyo Stock Exchange for the first time last year, on December 8, 1987.

Many of the programs, policies, merchandising and operational programs conceived in 1987, which in some cases impacted only slightly on the company's bottom line, are intended to be the foundation for future expansion and profits.

(Continued on page 131)

ANNUAL REPORT WAL-MART

Wal-Mart Under Glass: Goal is No. 1 Discounter

BENTONVILLE, Ark. — The Wal-Mart juggernaut cracked 1,000 stores in 1987, but more interesting was the kind of store the Arkansas retailer chose to open.

The big news was the debut of its hypermarket concept, Hypermart USA, in Dallas at year-end. Long-term, the opening of the first of its SuperCenters shortly thereafter may be of even more significance.

Hypermart USA may have been the most ballyhooed store ever to open, attracting as it did a virtual army of reporters looking for the "next big thing" in retailing, but some observers feel that the concept is limited to a handful of major metropolitan areas and an even smaller handful of high-traffic secondary markets.

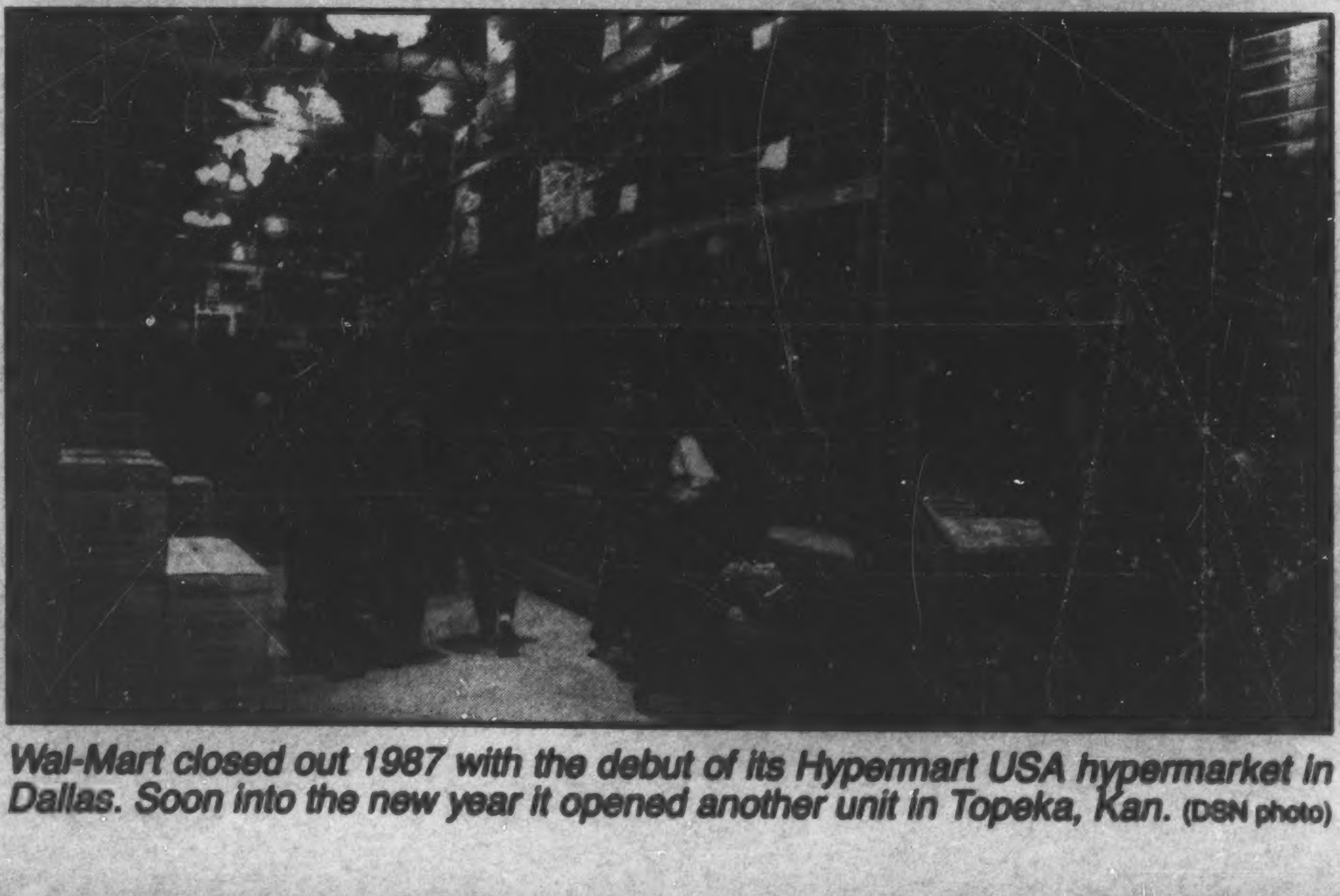
However, the smaller, down-size hypermarket SuperCenter, unveiled early this year, has the potential to very quickly turn Wal-Mart into the most dominant retailer in the world.

The company's strength has always been rural America, where a new Wal-Mart can normally panic local competition with its rock-bottom prices and deep selection. However, in small metro areas Wal-Mart becomes, according to *DSN*-sponsored research, "just another discount store." SuperCenter, essentially a scaled-down version of Hypermart USA, could address that weakness, giving the company enhanced access to areas in which it has met relatively little success.

Wal-Mart also made what many see as the first step in what will be a painful management transition when David Glass, formerly the company's president, was named chief executive officer early in 1988.

Many analysts had worried openly that the company had become so dependent upon the personality of founder and chairman Sam Walton that chaos would result when and if he retired or became unable to continue running Wal-Mart. Although the company denied that any competition was involved, vice chairman, chief financial officer Jack Shewmaker, who was a candidate as Walton's heir, resigned his positions at the same time. Shewmaker will remain with the company as a consultant.

	1987	1986	% Change
Sales (In Millions)	$13,248	$10,200	29.9%
Earnings (In Millions)	1,067	846	26.1
Stores	1,114	980	13.7



Wal-Mart closed out 1987 with the debut of its Hypermart USA hypermarket in Dallas. Soon into the new year it opened another unit in Topeka, Kan. (DSN photo)

Financially, the company had yet another of its trademark record-setting years. Sales rose 34 percent from just under $12 billion to $16 billion, and profits increased a dramatic 39 percent, from $450 million to $628 million. Discount store sales alone rose nearly 30 percent to $13.2 billion. And, at the company annual meeting last month, Glass predicted the corporation would exceed $20 billion in sales this year.

Wal-Mart has become such an efficient money machine, in fact, that Shewmaker felt compelled to note publicly that while the stores were, in fact, lowering prices, outsiders remained skeptical because profits kept going up. "The harder we try to do that [lower prices], the more efficient our people become—we can't seem to get caught up," he said.

Efficiency is almost a religion at Wal-Mart, which has upped its per-square-foot productivity from $145 in 1982 to $213 last year. It has installed state-of-the-art satellite communications technology and POS equipment as one money-saving measure, but the company credits its associates, who it says just get better and better.

The secret of his success, Sam Walton is fond of saying, is very simple: Offer the best merchandise at the best price in an agreeable environment and the world will beat a path to your door.

(Continued on page 133)

K mart Committed to Discount and Specialty Stores

K mart's hardware/home improvement mix was strengthened in many of its stores, particularly the home care centers which focus on DIY customers.

Not only do DIY'ers shop K mart's hardware departments and home care centers, so do customers who are just looking for a few items to finish a prcject. (DSN photo)

(Continued from page 127)

For example, K mart started centralizing its merchandising/buying functions last year; began live testing of its GTE Skystar satellite network, which will be linked chainwide by 1990 to all stores, regional headquarters, distribution centers and international headquarters.

The retail giant reorganized its hard lines buying into six divisions in 1987: Kitchen Korner; Bed and Bath; Home Care; Horticulture; Sporting Goods; and Auto Accessories. Apparel remains a separate division.

Apparel, which underwent some major upgrading in 1987, from the addition of fur coats and jackets and other fashionable merchandise, to the introduction of the apparel department placed in the infield of the newly configured Lima, Ohio, store, a midrange unit.

Private Label Apparel

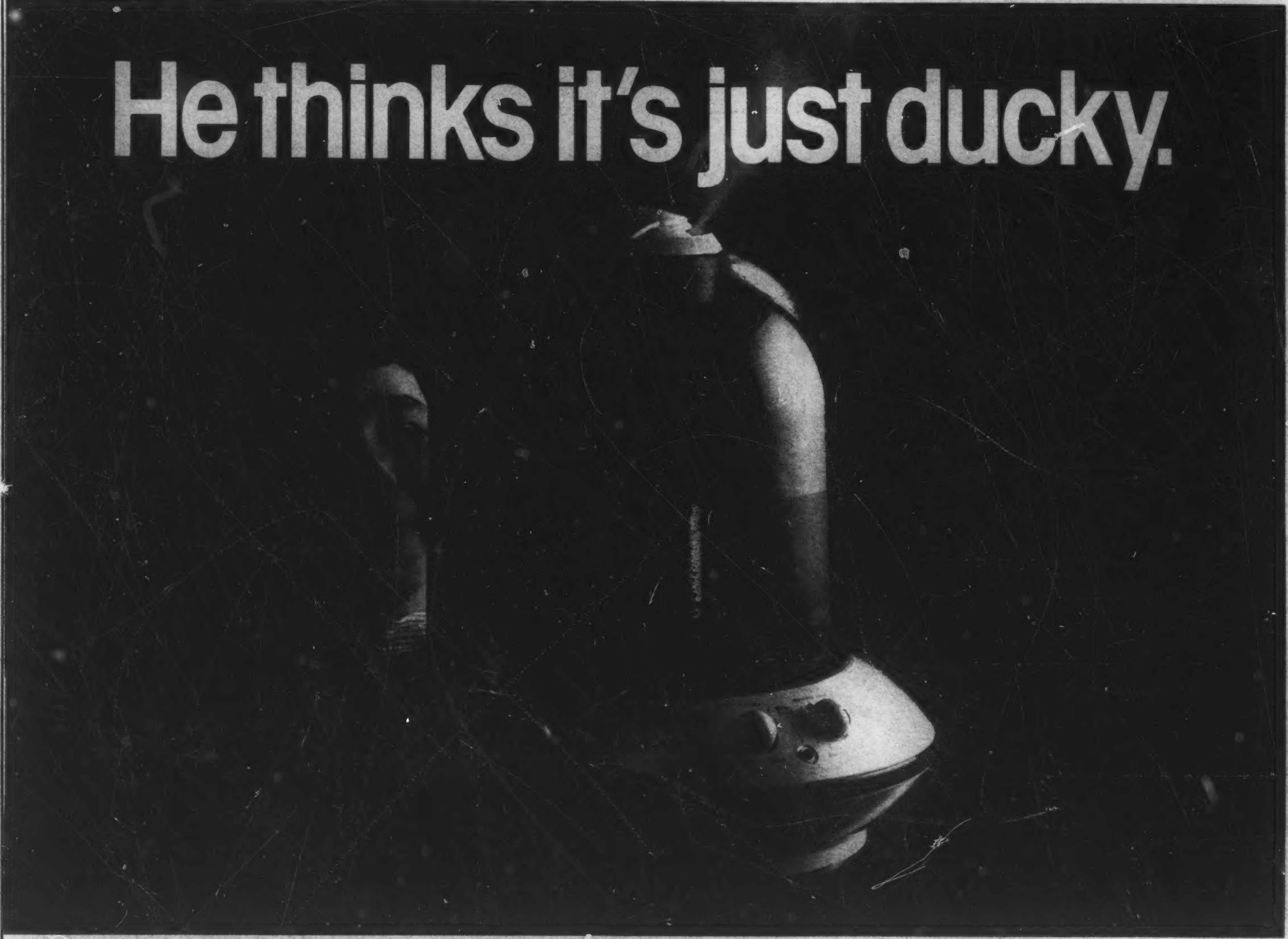
K mart also introduced two new private labels in the apparel department last year, The Body Company, a line of exercise/bodywear, and Weathered Blues, casual sportswear in the denim distressed looks. More fashionable merchandise was also introduced in the infants' and toddlers' department.

In keeping with K mart's goal to centrally merchandise its departments, the discounter added hosiery to its centrally merchandised apparel system earlier this year and will soon add bed and bath, and curtains and draperies to that system.

In hard goods, K mart will assign or centrally merchandise more than $5 billion of merchandise, compared to less than $2 billion in 1986. And by next year, all advertised and seasonal merchandise in hard lines will be centrally merchandised.

These changes will have a large impact at K mart. Antonini told a gathering of security analysts in New York in April that it realized a 33 percent sales increase and a 2 percent margin gain in the first eight weeks small appliances were added to the centralized merchandising system.

Next year, about 75 percent of all K mart's merchandise will be on the system.



Who else would even think of putting a happy family of ducks swimming around the reservoir of an ultrasonic humidifier? Nobody but Soundesign.

Because most humidifiers are purchased for kids' rooms, we designed the very first one with kid-friendly features. Like a night light. A lullabye that plays for up to 60 minutes then automatically shuts off.

And ducks.

In fact, we've put all our ducks in a row to give you a complete line of ultrasonic room humidifiers that look great anywhere in the house. And all come with the kind of features your customers want, like efficient operation, adjustable humidity level, automatic shut-off when the desired humidity level is reached or the water tank is empty, built-in medication/deodorizer chamber, and a tip-over shutoff switch for extra safety.

Our new line of humidifiers will probably quack all sales records. So start stocking Soundesign and watch us turn on the sales.

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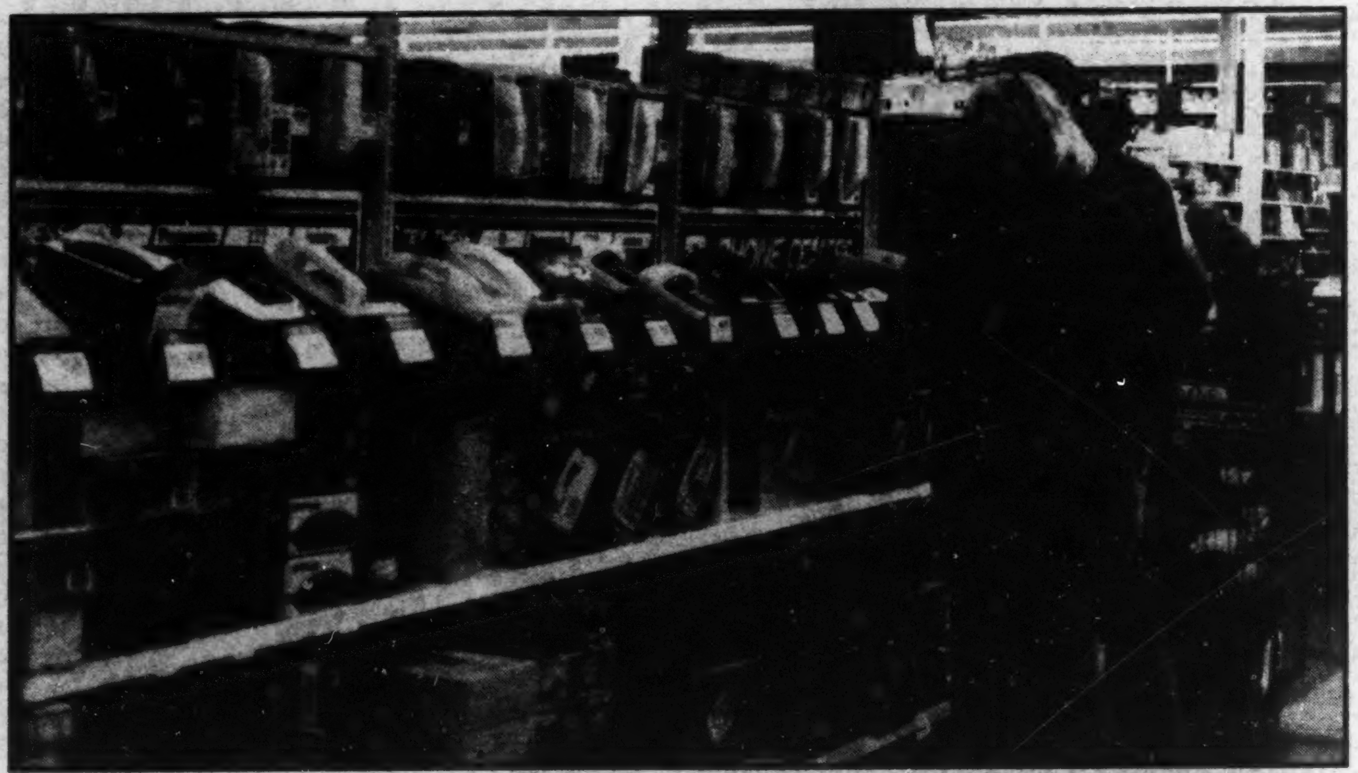
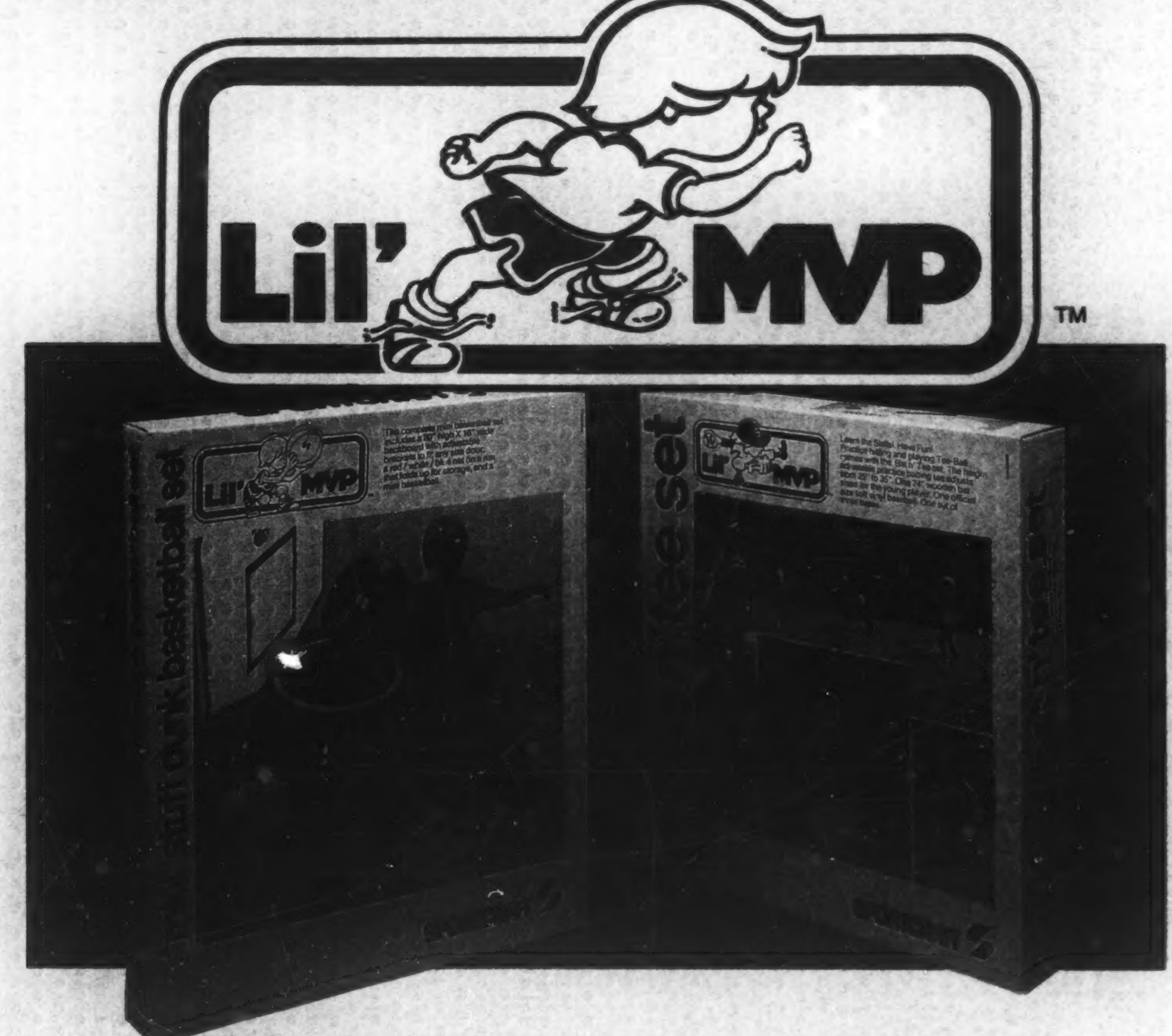
Wal-Mart Under Glass: Goal Is No. 1 Discounter

Wal-Mart employs such bulk display techniques as wire baskets and cut cases on flats, also found in Hypermart USA, to make shopping easier for its customers.


Wal-Mart will be expanding its consumer electronics merchandising as part of its drive to pass $20 billion in sales this year. In 1987, sales hit $13.2 billion. (DSN photos)

There's an outstanding young talent in the growing sporting goods market.



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With exciting packaging, featuring the Lil' MVP logo, SPORTCRAFT makes it easy for Auntie, Uncle, Grandma and Grandpa to pick out educational sports equipment for their pint-size all-pros. If you sell toys or sporting goods, you ought to have a SPORTCRAFT Lil' MVP line. After all there's a new Lil' MVP being born every minute.

SPORTCRAFT
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(Continued from page 127)

Toss in intensive attention to inventory management and almost fanatical devotion to cutting expenses ("We squeeze a nickel so tight you can hear the buffalo scream," one executive once said), and you have the basic outline of what is arguably the world's most successful business.

Wal-Mart's success is due in a large part to its attention to its employees. The company features liberal stock ownership and pension plans, and it promotes heavily from within. What is commonly perceived as a dead-end job at other retail stores is seen as a career opportunity at Wal-Mart. Last year, according to the company, 1,100 associates were promoted to management-level positions.

Growth Rate Slowed to 12%

Based on the current sales growth rate of the two chains, Wal-Mart is expected to surpass K mart as the world's largest discounter within five years. However, that could happen much more quickly, given the company's rapid growth over the past five years. Although the company's growth rate has slowed down to about 12 percent, those stores have consistently increased sales. The company has concentrated recently on expanding and retrofitting its older stores, which contributes to its impressive same store sales increases.

This year, Wal-Mart will reportedly test new product areas, including a 50-store test of a personal computer department which will feature Blue Chip and Tandy (Radio Shack) products. It will open roughly 125 new Wal-Mart stores, some in new markets, and will continue to expand its SuperCenters and Hypermart USA hypermarkets. Its Sam's Wholesale Club division, which also placed among the top 10 this year, will surpass the 100 store mark.

And, with Wal-Mart's new computer and telecommuncations networks running at full speed and its associates continuing their drive to become the most efficient employees in the United States, Wal-Mart will probably continue to outperform even the most optimistic projections of the financial industry.

TARGET **ANNUAL REPORT**

Target Slows Growth, Yet Retains Pioneer Spirit

Target			
	1987	**1986**	**% Change**
Sales (In Millions)	$5,306	$4,355	21.8%
Earnings (In Millions)	322.5	311.0	3.7
Stores	317	246	28.9

Source: DSN research

MINNEAPOLIS — Although Target has slowed its growth this year to allow for the digestion of 73 stores added during 1987, the third largest discounter is still forging into new markets and filling in others.

This month, 323-store Target will make its initial entry into the Pacific Northwest when it launches the first wave of stores planned for Oregon and Washington state. Although nine stores in the greater Seattle and Portland market are planned for July, Target intends to be operating a total of 35 stores in the two states by 1993.

The chain will find itself running against a strong, area competitor—Portland, Ore.-based Fred Meyer. While some Fred Meyer stores run close to the typical 100,000-square-foot Targets, many of Fred Meyer's new stores are almost twice the size of a Target and in many instances include a supermarket and pharmacy.

However, with Target's aggressive effort to guarantee low prices with the slogan "You'll Never Pay Less," the discounter will give Fred Meyer and other area retailers a run for their customers' dollars.

All told, Target intends to open 25 additional sites this year, with new units entering California, Michigan and New Mexico—also a new market.

The slowdown in growth should give Target a chance to absorb the 50 former Gemco stores it acquired in 1986 and reopened last year as Targets. The purchase enhanced Target's position in California, since it was able to make initial entries into the San Francisco area and San Joaquin Valley. Other new markets entered in 1987 included Detroit, Las Vegas and Reno, Nev.

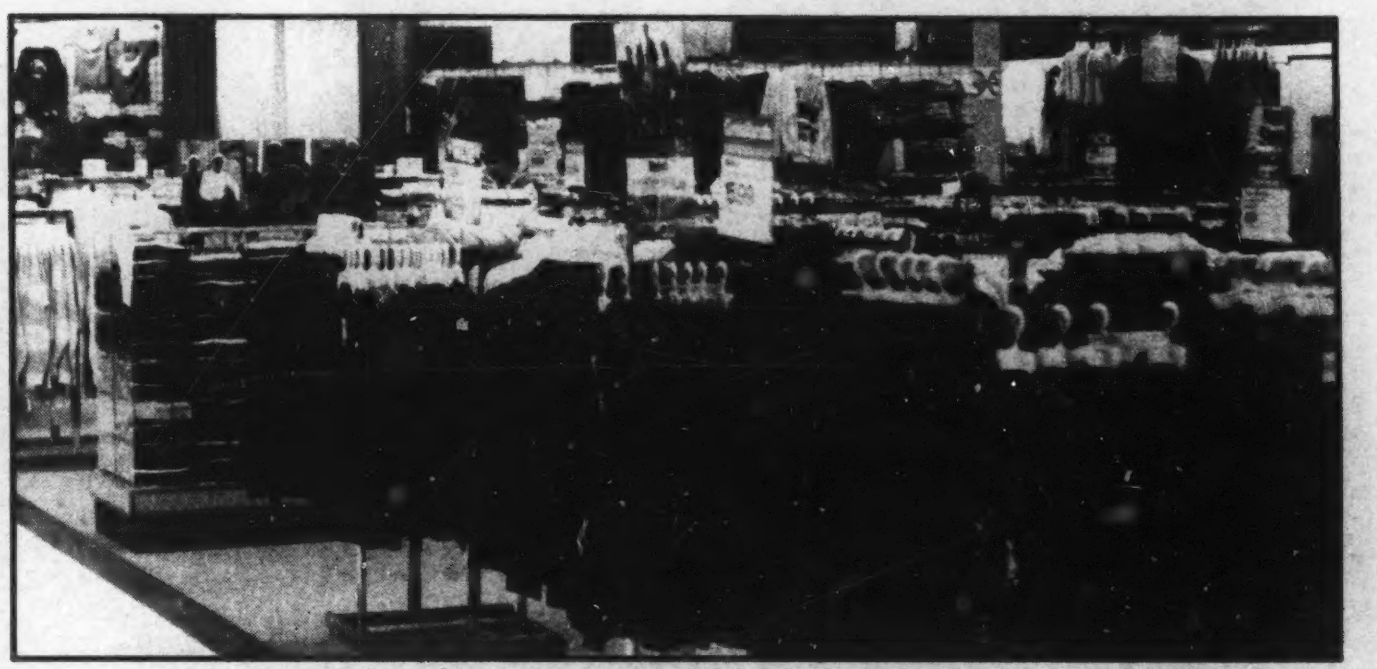
Although the aggressive push gave Target a large-scale entry into many cities, it also put a strain on in-store stock levels since the chain's retail space increased by 30 percent during the year. Looking to rectify this problem and increase profitability, Target parent Dayton Hudson said the discounter is integrating a merchandise flow distribution system.

Currently, one unspecified merchandise category is operating under the system at the Pueblo, Colo., distribution center, which serves 44 stores. The program provides daily replenishment to the stores in "quantities designed to fit on the selling floor," according to Dayton Hudson's most recent annual report.

While the merchandise flow system will be expanded this year to include

(Continued on page 136)

Last year Target reopened 50 former Gemco stores in California after extensive remodeling and remerchandising. Pictured is a Sacramento unit during set up.



Target entered Detroit, Las Vegas and Reno, Nev., for the first time in 1987. Pictured is new Detroit unit located near headquarters of arch rival K mart. (DSN photos)

PRICE CLUB **ANNUAL REPORT**

Price Club Maintains Slow Growth, Strong Results

SAN DIEGO — While the bulk of the membership warehouse club industry has been busy adding units in an effort to gain greater market share this year, Price Club has continued its conservative growth plan while still remaining the sales volume leader.

Currently with 38 warehouses in operation and 41 anticipated by its year-end in August, Price Club is slipping in terms of a total warehouse count in comparison with its younger competitors. Wal-Mart-owned Sam's Wholesale Club has out-numbered Price in unit count since 1985, and now Costco will surpass Price Club this year and PACE is not far behind.

However, Price Club's units still generate the largest sales volumes. While the chain's unit count during fiscal 1988 will grow by about 21 percent over the previous year, sales and earnings have exceeded this pace. In the most recent results, reflecting the first six months of the fiscal year, Price Club's net income grew 31.8 percent to $52 million while sales grew 24.3 percent to $2.13 billion. This could take the company over the $4 billion mark for the year.

Recognizing these results, *Fortune* magazine recently ranked Price Club as one of the 25 fast-growing companies in America. Placing ninth, Price Club registered a 39 percent sales gain between 1983 and 1987, the time frame used for the ranking by *Fortune*.

While the sales growth is partially attributable to comparable warehouse increases, new locations do indeed spur on the sales total. New locations this year for Price Club include one site already opened in White Marsh, Md., three scheduled for this summer and one planned for the fall. The summer openings consist of one in Glendale, Ariz.—the fifth in that state—one in Corona, Calif., and one in Hampton, Va., while the fall opening is planned for Babylon, N.Y.

Price Club Canada, the company's joint venture with Steinberg Inc., will add to its two-warehouse base with the opening this fall of a site in Toronto and one in Quebec.

Following company founder Sol Price's track record for business innovation and ingenuity, Price Club is not content to just keep building on its present operation. Instead, it announced this year the creation of Price Club Industries to explore new entrepreneurial concepts and oversee manufacturing and specialty operations.

The division's duties include running Price Club's optical centers, gas stations, photo processing, ground meat packaging, automotive services and pharmacies. The success of the optical centers—started last year—has already prompted Price Club to include them in 12 locations, and the chain is looking to eventually roll them out to all warehouses, according to Dan Carter, chief financial officer. Price Club is also going ahead with plans to open a lens grinding facility to service the optical centers.

While the company's pharmacy test appears at a standstill with just one location, Price Club is now prepared to go beyond its one gas station with the opening of a second at the Scottsdale, Ariz., club this year.

Although no new ventures have been announced since the company's annual meeting in January, company president Robert Price said at the time that the new division was pursuing other business activities, including several manufacturing avenues.

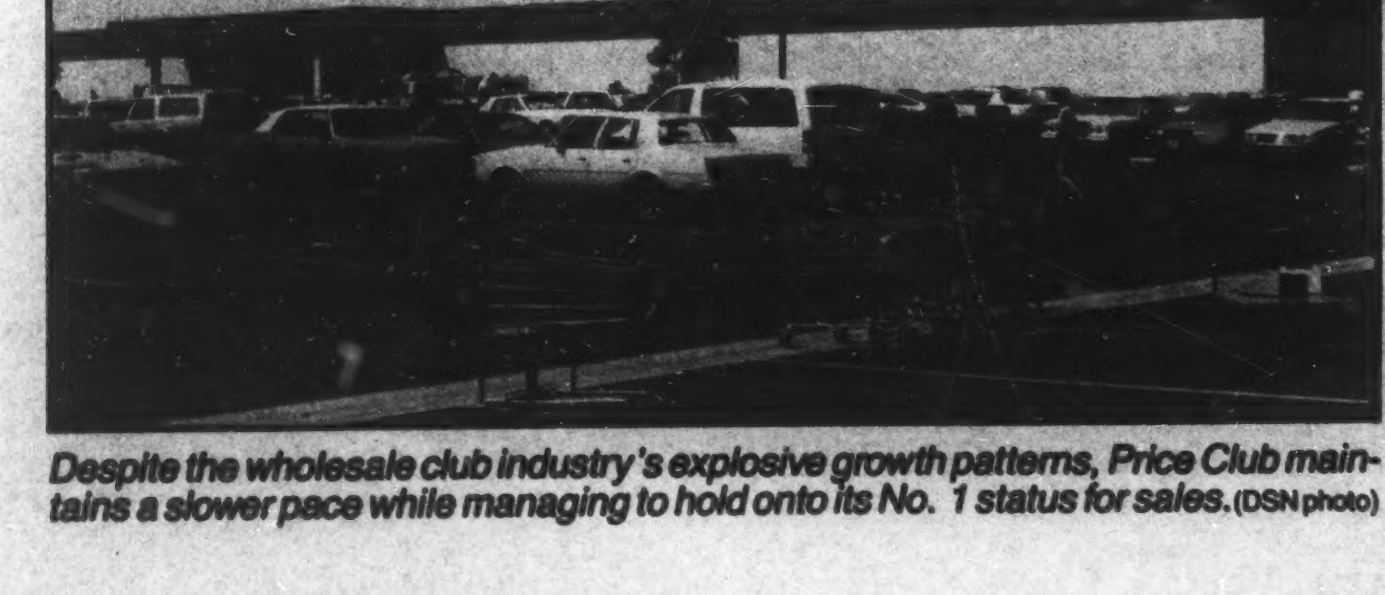
Other changes taking place at Price Club this year include enhancements for the chain's members. Business members, who have belonged to the club at least two years, can now purchase two additional membership cards for $25 each, thus allowing for a total of six cards on one membership.

Business membership was also expanded, allowing qualifying professionals and contractors to obtain three cards. Previously, only a group practice was eligible to obtain cards, however with the expanded qualifications, these businesses can obtain individual memberships as a small business.

Additionally, Price Club made purchase time quicker for resellers in Arizona, by assigning them a tax control number and thereby avoiding the need for lengthy and time-consuming form filling at the register. Although state regulations are still closely followed, information on file and one short form now replaces a much longer one.

Price Club			
	1987	**1986**	**% Change**
Sales (In Millions)	$3,323	$2,667	24.6%
Earnings (In Millions)	139.7	116.0	20.4
Stores	37	34	8.8

Source: DSN research



Despite the wholesale club industry's explosive growth patterns, Price Club maintains a slower pace while managing to hold onto its No. 1 status for sales. (DSN photo)

Target Slows Growth, Yet Retains Pioneer Spirit

Apparel is still Target's calling card. The upscale discounter is noted for being a shrewd apparel merchant and one of the most fashion-forward discount stores.

Despite its upscale image, Target is surprisingly price-conscious, particularly with traffic-building health and beauty aids products. (DSN photos)

(Continued from page 134)

two other product categories, Target will also open new DCs in Sacramento, Calif., and Indianapolis.

The chain also expects its instore scanning implementation to be companywide by the end of this year. Last year, over 100 stores were put on the system, designed to save customers time, while providing Target with more accurate inventory data.

By concentrating on improved inventory management, merchandise flow and a slowed growth mode, Target—and Dayton Hudson—expect to realize higher earnings this year. According to Dayton Hudson, start-up costs for the converted Gemco locations cost Target some $42.9 million, and pulled down a potential 17 percent operating profit increase to only a 4 percent gain at $323 million in 1987.

Target continues to be Dayton Hudson's retailing leader, accounting for over half of the company's total sales generated in the first quarter.

However, year-end sales produced by Target's 317 stores were up 22 percent and amounted to $5.31 billion, while comparable sales rose 4 percent.

This year, first quarter comparable sales gained just 3 percent at Target—a figure Dayton Hudson said was expected and does not necessarily dictate the growth pattern for the remainder of the year.

Chainwide, sales increased 28 percent and hit $1.35 billion for the quarter ended April 30, 1988.

Target continues to be Dayton Hudson's retailing leader, accounting for over half of the company's total sales generated in the first quarter. Similar results were evident in the most recent year-end, as Dayton Hudson acknowledged that Target's portion of the total operating profit has grown from 35 percent to 53 percent during the past five years.

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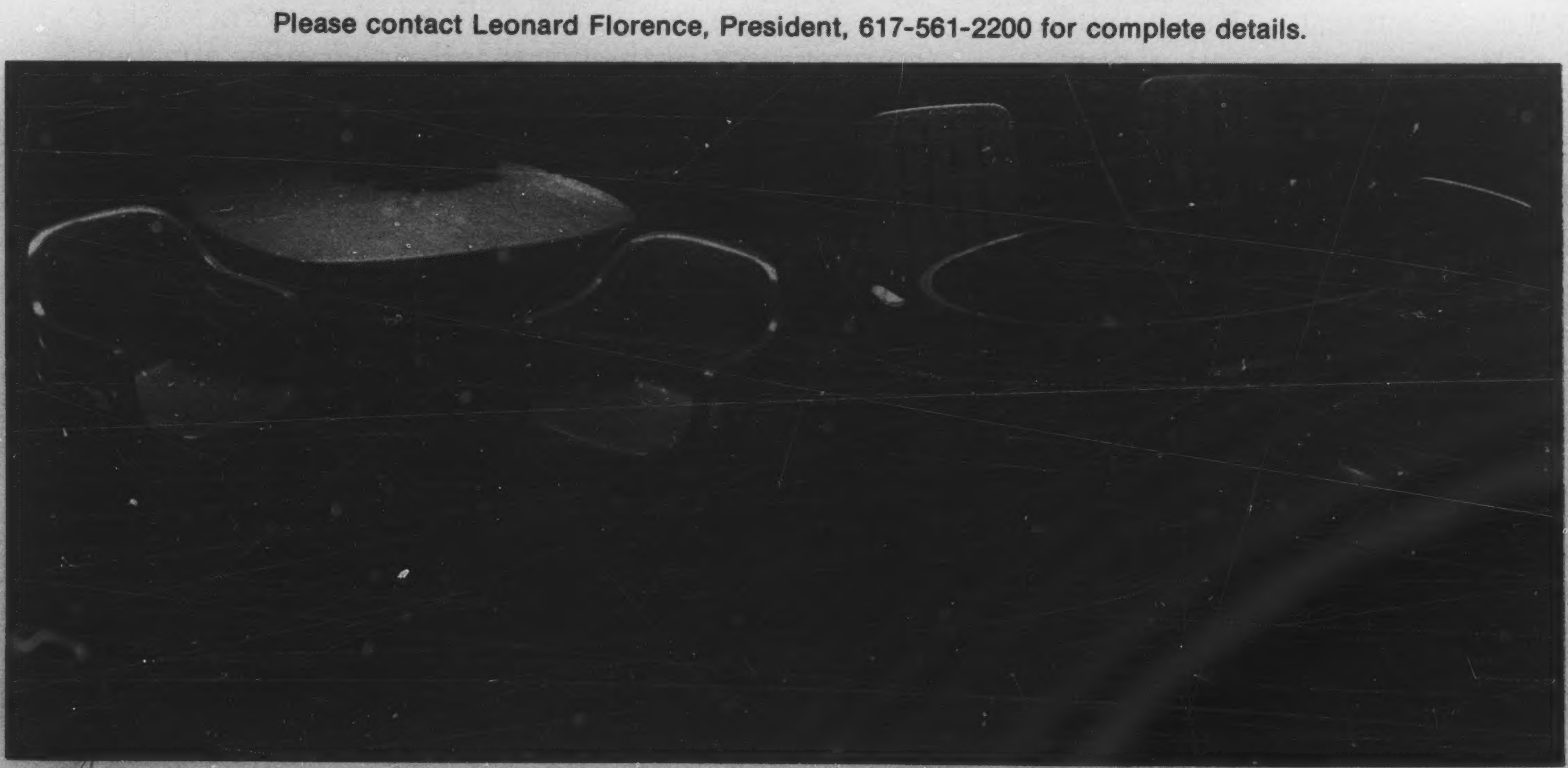


ANNUAL REPORT ZAYRE

Zayre Launches 7-Step Plan to Get Back on Track

FRAMINGHAM, Mass. — 1987 was a tough year for Zayre Stores, the discount store arm of $6 billion retailer Zayre Corp.

The year saw a $40 million write-down, high-level executive resignations, takeover rumors and, ultimately, a $13.9 million net loss. Overall, the company made a respectable $143.3 million profit, but much of that profit was due to the sale last summer of a minority interest in its highly profitable TJX division.

Most of the action took place late last summer. As sales lagged, Zayre Corp. chairman Maurice Segall took dramatic action, slashing prices on slow-moving merchandise and writing off millions of dollars worth of obsolete goods. This announcement came on the heels of the resignation of Zayre Stores chairman Malcolm Sherman, after which Segall named himself acting chairman of the division. (Home-Club president Herbert Zarkin, a lifelong Zayre employee, was recently named chairman of Zayre Stores.) Almost simultaneously, the $89 million sale of TJX stock was announced, offsetting the eventual second quarter loss that resulted, in part, from the write-downs.

At the time, Segall noted that Zayre Stores had to become more competitive on "certain brand name items," and prices were slashed on 300 hard goods products, mostly staple items like deodorant and toothpaste. He also announced the impending introduction of "several new and exciting (but unspecified) marketing programs."

Segall was evidently referring to the debut of Zayre's frequent shopper bonus program, Frequent Z, and the introduction of brand name, fashion clothing to the company's languishing apparel departments, among others. Less than a year later, Frequent Z has already been discontinued after meeting with consumer apathy and fashion apparel has, at best, trickled into Zayre apparel racks.

In the company's annual report, Segall announced a seven-step program to return the discount store division to profitability. The steps include a major review of merchandise assortments (due for completion this month), better margin planning, upgraded employee training, better targeting of black and Hispanic shoppers, improved distribution (with an 800,000-square-foot DC in Plant City, Fla., expected to open this month) and upgraded open-to-buy, POS and unit control systems.

Additionally, the company seems to have committed itself to chopping prices on traffic-building staples like cleaning products and paper goods. Cut-case merchandising of these products has been stepped up dramatically in many stores, particularly, it seems, in inner-city and ethnic areas. This fits in with Zayre's apparent strategy of targeting the lower end of the market as competitors upscale to appeal to the more affluent consumer.

Zayre is virtually the last major discounter to have significant operations

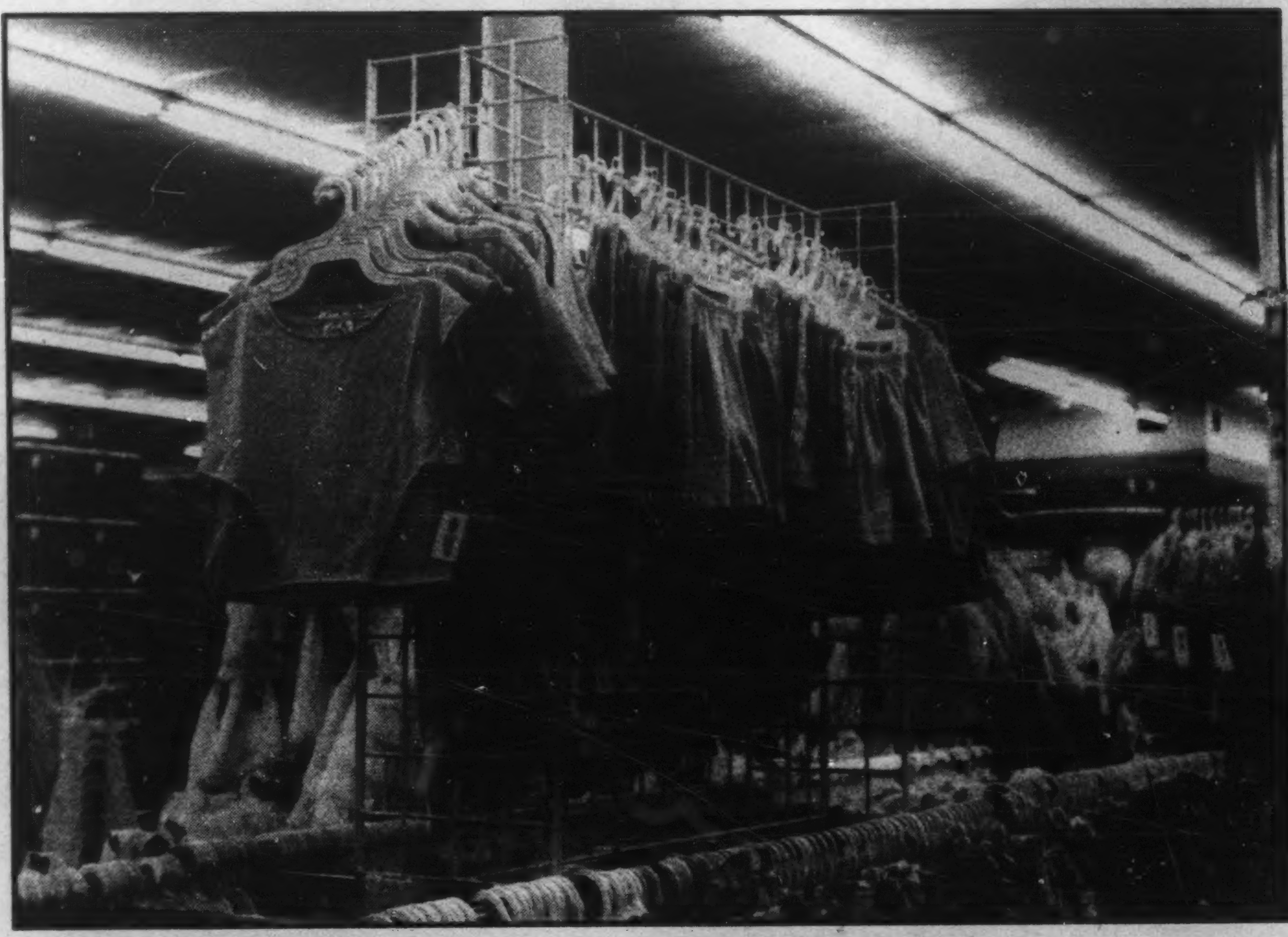
(Continued on page 141)

Zayre

	1987	1986	% Change
Sales* (In Millions)	$3,290	$3,046	8%
Earnings (In Millions)	(13.9)	129.9	—
Stores*	382	362	5.5

**Includes Zayre discount stores only*

Source: DSN research



Zayre has attempted to upscale its apparel presentation with name brands and new fixtures aimed at establishing a more fashion-forward image. (DSN photo)

ANNUAL REPORT TOYS "R" US

Toys 'R' Us Plots Expansion at Home and Abroad

ROCHELLE PARK, N.J. — Before the 1988 annual meeting of Toys "R" Us started in New York last month, a small, redheaded boy walked up to chairman Charles Lazarus and told him: "My grandma and grandfather bought me stock in your company.

"Is it going to make any money this year?" the lad asked.

Lazarus' answer was inaudible. But all available signs point to another profitable year ahead as the leading toy retailer continues to grind out market share gains.

In 1987, TRU logged a 21.7 percent increase in pre-tax profits on a 28.3 percent gain in sales. Before income tax, profits grew to $345.9 million from $284.2 million in 1986. After-tax profits rose 34 percent to $203.9 million, equal to $1.56 a share, from $152.2 million and $1.17 a share in 1986. Since its inception in 1978, TRU has enjoyed a compounded profits growth of almost 31 percent a year.

Same Store Sales Jump 10.1%

Sales rose in 1987 to $3.14 billion from $2.44 billion in 1986. More important, same store sales jumped 10.1 percent, a gain from 8.5 percent the previous year.

Profits in the year ended Jan. 31, 1988 equaled 6.5 percent of sales, compared to 3.93 percent at vaunted Wal-Mart.

Another favorable sign for TRU profits: its effective tax rate drops to 37.5 percent for the current rate from 41 percent in 1987.

Profits in 1988 will rise 35 percent to $2.15 a share and in 1989 rise again to $2.60 a share, predicted Daniel E. Barry, retail analyst for Kidder Peabody, in a May 27 report.

"Toys "R" Us is one of only a handful of retailers whose strong earnings will be virtually assured in the difficult retail environment we anticipate over the next two years," Barry wrote. "Sales and earnings should be boosted more than investors expect by a developing boom in video games.

"The added impetus from video games should enable Toys "R" Us to report the biggest sales and earnings gain of any billion-dollar retailer this year," Barry predicted.

"With the recent change in management of Child World [the nation's No. 2 toy retailer], its highly aggressive pricing policy of the past two years is expected to be relaxed," Barry said, "allowing Toys to generate stronger same store sales gains in markets where they both compete."

Adding Two Points of Market Share

TRU is adding at least two points of market share a year to its commanding 20 percent, said Robert J. Schweich, managing director for Wertheim Schroder, a New York investment house that underwrote a $100 million debenture issue for Toys "R" Us in January 1987.

Within 10 to 12 years, TRU will control as much as half the retail toy market, Schweich predicted.

At its annual meeting June 7, stockholders approved an increase in the number of shares outstanding to 350 million from 200 million. The increase suggests the possibility of a three-for-two stock split, Schweich said.

Video games "continue to be a real bonanza," Schweich noted in a May 8 report. "The company is using its financial strength to secure electronic merchandise, which generally is in short supply," he wrote.

TRU will continue to be competitive on prices, Schweich said, but less so because of diminished pressure from Child World.

"Toys was successful at aggressive pricing, where Child World fell down," the analyst said.

Chainwide scanning, which TRU installed last year at a cost of $35 million, was an important factor in TRU's 18 percent gain during the prime Christmas season. Thanks to scanning, "Toys gets customers in and out faster than Child World," Schweich said.

TRU now is adding scanning to its Kids "R" Us children's apparel chain.

Kids apparel accounted for about $250 million in 1987 sales, Schweich estimated, forecasting a gain to $400 million for 1988. Kidder Peabody's Barry estimated that the Kids division contributed 1 cent a share to 1987 earnings and will account for 4 cents a share in 1988.

Lazarus said he was pleased with the large number of toys introduced at the February Toy Show in New York.

"We benefit from toy diversity because we are able to show it all," he remarked.

With an average store size of 46,000 square feet, TRU stocks 18,000 sku's in its system.

For 1988, TRU has set another major expansion course, entering two new markets, Kansas City, Mo., and Western Canada, Lazarus said. In 1989, TRU will enter France, another foreign market in addition to Great Britain, West Germany, Canada, Hong Kong and Singapore.

It plans to add 15 foreign stores to the 37 it started the year with. Domestically, it will add 45 stores to the 313 at the start of its fiscal year.

35 Kids Stores to Open in '88

In addition to 60 Toys stores, TRU plans to open 35 more Kids apparel stores, including 10 units in a new market, Southern California, on top of the current 72.

During 1987, TRU added 42 more U.S. Toys stores and 13 international, entering three new markets: Pittsburgh, Phoenix and West Germany, and 31 Kids apparel stores.

In his letter to stockholders in the 1987 annual report, Lazarus said the company plans this year to improve productivity by starting labor scheduling in its distribution centers, increasing the use of computers and materials handling equipment in distribution centers, start electronic data interchange (EDI) with suppliers and electronically transmit credit card data.

"These cost and tax savings [from the 1986 tax reform bill] strengthen our position as the low-cost retailer in the toy business," Lazarus wrote.

In terms of management, technology and real estate, TRU remains the dominant factor in toy retailing, said Schweich.

Toys "R" Us

	1987	1986	% Change
Sales (In Millions)	$3,137	$2,445	28.3%
Earnings (In Millions)	345.9	284.2	21.7
Stores	424	338	25.4

Source: DSN research

Zayre Launches 7-Step Plan to Get Back on Track

ON JOINING
FREQUENT Z

In response to lagging sales, Zayre instituted in mid-1987 a Frequent Z bonus program, since discontinued, to reward its frequent shoppers.

9.99 13.99 4.99
Touch of Velvet
100% DuPont Antron Rugs

As part of its attempt to revitalize its stores, Zayre has reaccentuated its domestics departments by deepening and upscaling its merchandise. (DSN photos)

(Continued from page 139)

in inner-city neighborhoods, which have been almost totally abandoned by discounters. Zayre's thinking, evidently, is that these consumers are as much in need of basic discounter products as are their wealthier counterparts in the suburbs, and given the traffic in many of the company's urban locations, it seems to have analyzed the situation well.

However, the company has not, as yet, executed. Inner-city consumers are extremely brand conscious. Zayre has attempted to address this by adding, for example, Nike and other name brand sneakers and Spalding and other fashion sportswear. However, in most cases, the products are "salted," with little depth.

If the fashion-forward trend is continued, however, it could be very successful. Zayre operates T.J. Maxx, the ultra-successful off-price fashion apparel chain, so the fashion know-how is evidently available within the organization.

Cash Flow Shortage

There seems to be a shortage of cash at the discount level, however. According to one store manager, a large part of Zayre's store remodeling program has been suspended due to that shortage, and many Zayre stores are in a state of disrepair. While the company seems to be positioning itself to become the "no-frills" leader of the industry, some remodeling is vital.

Only time will tell if the extensive overhaul the company has hinted at will be enough to keep Zayre competitive. Last year, its same store sales rose only 1.5 percent and were particularly lackluster during the crucial Christmas selling season, Segall noted. So far this year, no noticeable improvements have been observed, and Moody's recently downgraded the company's debt rating, citing expectations for very slow improvement of the company's financial position.

However, the elements blamed by Moody's (poor distribution and merchandising and unsuccessful promotion strategies) are the very elements Zayre has identified for crash improvements, so it appears that the industry's fourth largest retailer may be back on track.

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The self-adhesive sensor tucks into the corner of an outside mirror, where it's out of the way, yet clearly visible to the driver.

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ANNUAL REPORT SERVICE MERCHANDISE

Service Merchandise to Build on Turnaround

NASHVILLE, Tenn. — Service Merchandise isn't letting its turnaround go to its head.

Instead, the $2.7 billion retailer—the nation's leading cataloger—is focusing on strengthening its basic business by improving the productivity of its existing showrooms, even foregoing the rapid expansion that marked its growth in the past to open only a handful of stores this year.

The concentration on improving its current operations is expected to help Service boost sales this year to about $2.85 billion and break $3 billion in 1989, with substantial profits in both years.

That's not a bad payoff from the cataloger's turnaround, which last year saw sales hit $2.7 billion, up 7.6 percent from $2.5 billion, while a net income of $30.9 million was a major improvement from the $46.9 million in red ink in the previous year.

More importantly, Service was able to support that sales jump through a finely tuned merchandising program that resulted in only a 2.7 percent increase in inventories, which went to $647.4 million from $640.3 million in the previous year. Service's owned inventory actual dropped by 61.3 percent to $269 million from $330.3 million as the cataloger was able to use more manufacturer monies to fund its inventory investment.

The cataloger used some of the $192 million in additional sales to reduce by $101 million its notes payable, current maturities of its long-term debt, the long-term debt itself and capitalized lease obligations.

Another immediate payoff from the turnaround was a higher credit rating for the cataloger and bank extension of its extensive revolving credit lines.

Moody's, for example, raised the rating of Service's senior subordinate notes to Ba3, noting "expectations of improving returns in coming years because of the company's focus on overhead reductions and a higher-margin merchandise mix [while] debt levels are also expected to decline."

The debt rating service said Service would increase "the percentage of higher margin jewelry and electronics in its mix" and "is reducing its capital spending to within its projected cash flows, especially on new units."

Service's lenders extended the final payment date on its long-term $157 million credit for a year to March 1990, while its $130 million revolving credit, used for seasonal buying, was renewed for a year. The bank also limited Service's capital expenditures to $40 million a year during the terms of the agreements.

Fueling the cataloger's markedly improved financial performance last year was the best of all retailing worlds: a combination of higher gross margins and a sharp cut in selling, general and administrative expenses as a percent of sales. Gross margins went to 22.9 percent, a 6 percent increase from 21.6 percent in the prior year, while SG&A were cut 9.9 percent to 16.4 percent from 18.2 percent.

As for Service's back-to-the-basics program, its endeavors included:

- Launching a customer courtesy program called, "You can do Magic," with "MAGIC" an acronym for "Make a Goal, Impress Customers."

The cataloger used a video training program, along with publications and a recognition/incentive reward system to encourage employees to perform "Magic."

- Using the latest retailing technology to speed up approval of checks.

Electronic authorization of checks are now handled at two regional processing centers which are on-line to the cataloger's point-of-sale terminals.

- Strengthening the cataloger's year-old credit card program which had 362,000 customers and accounted for 4 percent of sales.

An instant credit feature was added to the program, while new customers could apply through the company's electronic POS network and a new approval system cut processing from days to minutes.

- Targeting customers who regularly shop Service Merchandise to insure that they receive the company's annual 490-page catalog, 130-page spring book and fliers.

The new customer tracking system includes entering a shopper's phone number to confirm the mailing address, along with the amount of the transaction. The information is electronically processed, including correcting and updating the phone number and mailing address, to develop the mailing list of those most active.

The company distributed over 257 million catalogs and fliers through the mail and another 210 million via newspaper inserts. Advertising costs of $74.3 million last year were down 20.9 percent from $93.9 million due to Service's improved ability to identify its best customers.

- Improving its mail-order service, a move that resulted in a 43 percent increase in direct-mail sales.

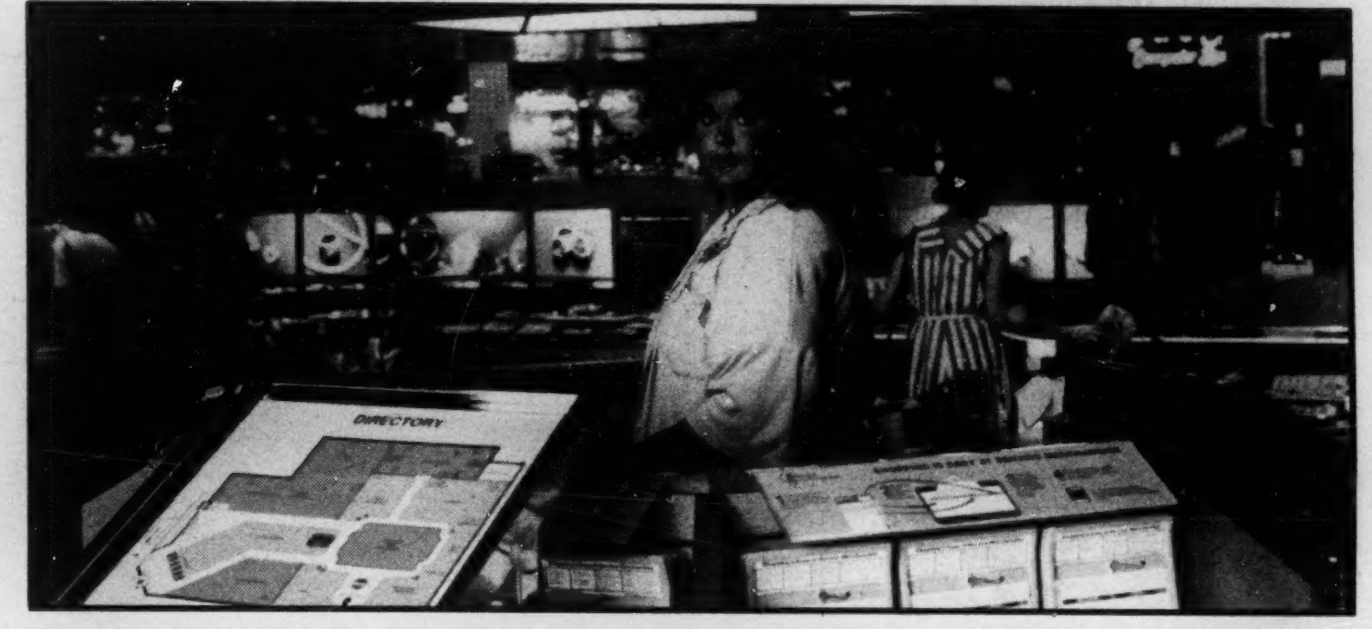
Orders that can not be filled in Service's central mail-order facility are now electronically sent to the showroom, nearest the customer, that stocks the merchandise. The item is then mailed from that location to the customer.

(Continued on page 144)

Service Merchandise

	1987	1986	% Change
Sales (In Millions)	$ 2,719	$ 2,527	7.6%
Earnings* (In Millions)	44.4	29.1	—
Stores	309	300	3.0

Source: DSN research



Service has launched a customer courtesy program called 'You can do Magic,' with 'MAGIC' an acronym for 'Make a Goal, Impress Customers.' (DSN photo)

ANNUAL REPORT SAM'S WHOLESALE CLUB

Sam's Poised to Lead Warehouse Club Industry

BENTONVILLE, Ark. — Sam's Wholesale Club this year is poised to achieve a goal that has so far eluded its parent, Wal-Mart—become the top company in a growing industry.

While Wal-Mart continues to chase K mart for the top spot in the discount store field, five-year-old Sam's is likely to become the leading membership warehouse in terms of sales this year, to go along with its position as the top operator of stores.

Sam's is expected to easily pass the $4 billion sales mark this year and inch ahead of The Price Club.

To reach and pass the $4 billion volume level would require Sam's to boost its sales by just under 50 percent. While that figure seems high, it's less than the 61.6 percent jump the membership warehouse achieved last year.

In 1987, Sam's sales hit $2.7 billion, $1.03 billion higher than the $1.7 billion volume reached in 1986.

The membership warehouse should be able to add over $1 billion to its volume from its expansion plans and the maturing of wholesale clubs unveiled and added last year. Sam's expects to open 18 clubs this year, about half the 35 unveiled in 1987, but that figure includes 17 stores that resulted from the acquisition of Super Saver.

Sam's has impacted Wal-Mart in a number of ways, not the least important of which is being a major driving force behind its parent company's impressive sales growth.

Wal-Mart's total sales last year went up 34 percent, but the discount store arm's volume increased only 29.5 percent; Sam's much higher 61.6 percent volume leap helped push the company to its more impressive volume jump.

Sam's itself has been accounting for a larger portion of the parent company's sales. Sam's share went to just under 17 percent last year from 14.1 percent in 1986 and 9.2 percent in 1985.

On another front, Sam's merchandising and marketing helped to sire Wal-Mart's move into a new and potentially explosive retailing format: hypermarkets. The Hypermart USAs are, in effect, wholesale club-type stores for consumers, with the core aspects of its marketing—warehouse fixtures and narrow and deep merchandising-employed by Sam's.

Sam's growing importance within the Wal-Mart organization is also evident from the parent company's executive reshuffling. A.L. Johnson was named as one of Wal-Mart's three vice chairman, specifically responsible for Sam's, Hypermart USA and the company's other specialty divisions, Sam's immediate head, Nick White, was designated a Wal-Mart executive vice president and Robert K. Voss, was named a company senior vp and Sam's general merchandise manager.

Sam's Wholesale Club

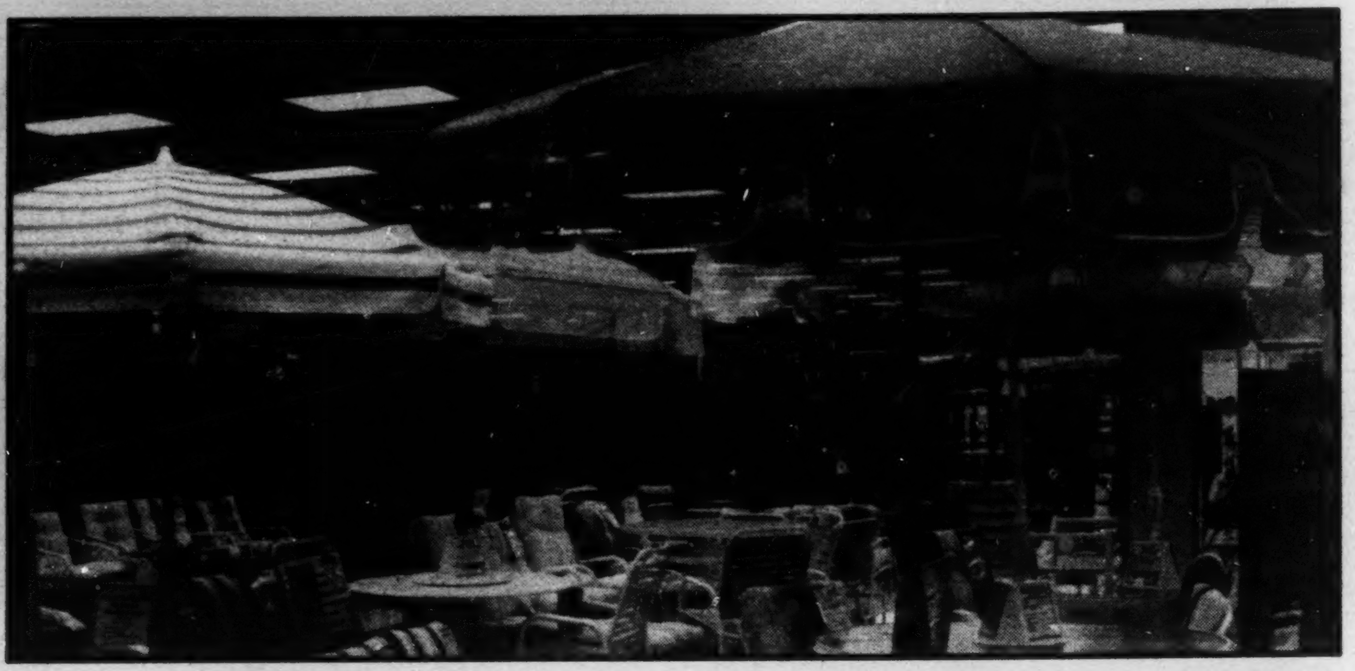
	1987	1986	% Change
Sales (In Millions)	$2,711	$1,678	61.6%
Earnings (In Millions)	NA	NA	—
Stores	84	49	71.4

NA—not available

Source: DSN research

Sam's has been accounting for a larger portion of the parent's sales, building from a 9.2% share in 1985, to 14.1% the next year and 17% last year. (DSN photo)

Service Merchandise last year boosted gross margins by 6% to 22.9% and made a sharp 9.9% cut in SG&A expenses as a percentage of sales to 16.4%.



There could be net gain of up to eight showrooms in 1988, with four new units already set, the renovation of two others and another pair's replacement. (DSN photos)

Service's Growth Slowed; Focus on Rebound Effort

(Continued from page 143)

While Service has keyed in on its current showrooms, it has scaled down its expansion program that saw the opening of as many as 20 new showrooms a year in the past.

This year there could be a net gain of up to eight showrooms—on a base of 309 stores—with four new units already set, the renovation of two others and the replacement of another pair.

Three showrooms that had been projected for this year have been delayed until 1989, by which time Service expects to pick up its expansion pace and open over a dozen units.

Three 50,000-square-foot Service showrooms have already opened; in Chattanooga, Tenn., third in that city and 17th in the cataloger's home state; Denver, Colo., fifth in that market and eighth in the Rocky Mountain State; and Columbus, Ohio, fourth in the city and 12th in the Buckeye State. As for other stores for this year, already on the drawing board is a 50,000-square-foot unit in Patchogue, N.Y., sixth in the Long Island suburbs of New York City and the Empire State's 19th.

Renovations were made this spring on the 29,000-square-foot Waterbury, Conn., unit and the 47,000-square-foot store in Jacksonville, Fla., while replacement units will be unveiled this fall for the showrooms now in North Columbus, Ohio (50,000 square feet) and the Goodlettsville suburb of Nashville (81,000 square feet).

Goodlettsville was also the location for the launching of a Zimm's jewelry specialty store, the third such type of unit for Service.

Six new showrooms are already set to debut early next year. They include 50,000-square-foot stores that were to have opened this year in Middletown, N.Y.; the Bloomingdale suburb of Chicago, a market where Service already has 20 units; and its initial unit in the Washington area in Waldorf, Md.

The other three are 50,000-square-foot showrooms in Stuart, Fla., 35th in the Sunshine State; Louisville, Ky., third in that city and eighth in the Bluegrass State; and St. Peters, Mo., a suburb of St. Louis where the cataloger already has four units.

Goody® introduces The Pretty Neat Beauty Organizers.™

What happens when you combine Goody's manufacturing know-how with some Pretty Neat ingenuity?

You get the first beauty organizers designed especially for both make-up and fashion accessories: Pretty Neat® Beauty Organizers. And you couldn't give your customers a better combination of superb styling and useful features.

Like roomy compartments and swing-out trays that glide for easy access. In sizes from simple compacts to deluxe double-trayed,

Meijer Maintains Its Position as a Michigan Power

Meijer			
	1987	1986	% Change
Sales (In Millions)	$2,540	$2,310	10%
Earnings (In Millions)	NA	NA	—
Stores	53	53	0

NA—not available *Source: DSN research*

Meijer's sales grew 10% last year to $2.5 billion. The percentage growth of its assets has been doubling since 1983. (DSN photo)

GRAND RAPIDS, Mich. — Wal-Mart, K mart and others have been in the spotlight for their "new" U.S.-oriented hypermarket concepts. Meanwhile, Meijer raises no objection against the publicity of the not-so-new retail approach, content to let competitors bask in the glory.

Meijer, which pioneered the U.S. hypermarket 20 years ago, has staked out only the states of Michigan and Ohio as its territory to date, but has found those markets to be fertile soil for growth.

The percentage growth rate of Meijer's assets has doubled each year since 1983 when the company had $211 million in assets. The next year assets grew by 11 percent; then the next two years surged by 23 percent and then 46 percent, respectively.

The company currently has assets of over $572 million, based on the most recent data available from the Michigan Department of Commerce. While this is but a fraction of chains like K mart and Wal-Mart, its growth history indicates Meijer is on the move.

Operational Changes

Among the operational changes the retailer has made since the start of 1988 includes the shift to 24-hour operations at most of its locations from 18 hours per day. The company is in the process of hiring 200 additional store level managers to handle the extended hours.

Despite its long history of hypermarket retailing, Meijer keeps one of the lowest profiles of any U.S. retailer, except, perhaps, when it comes to its customers.

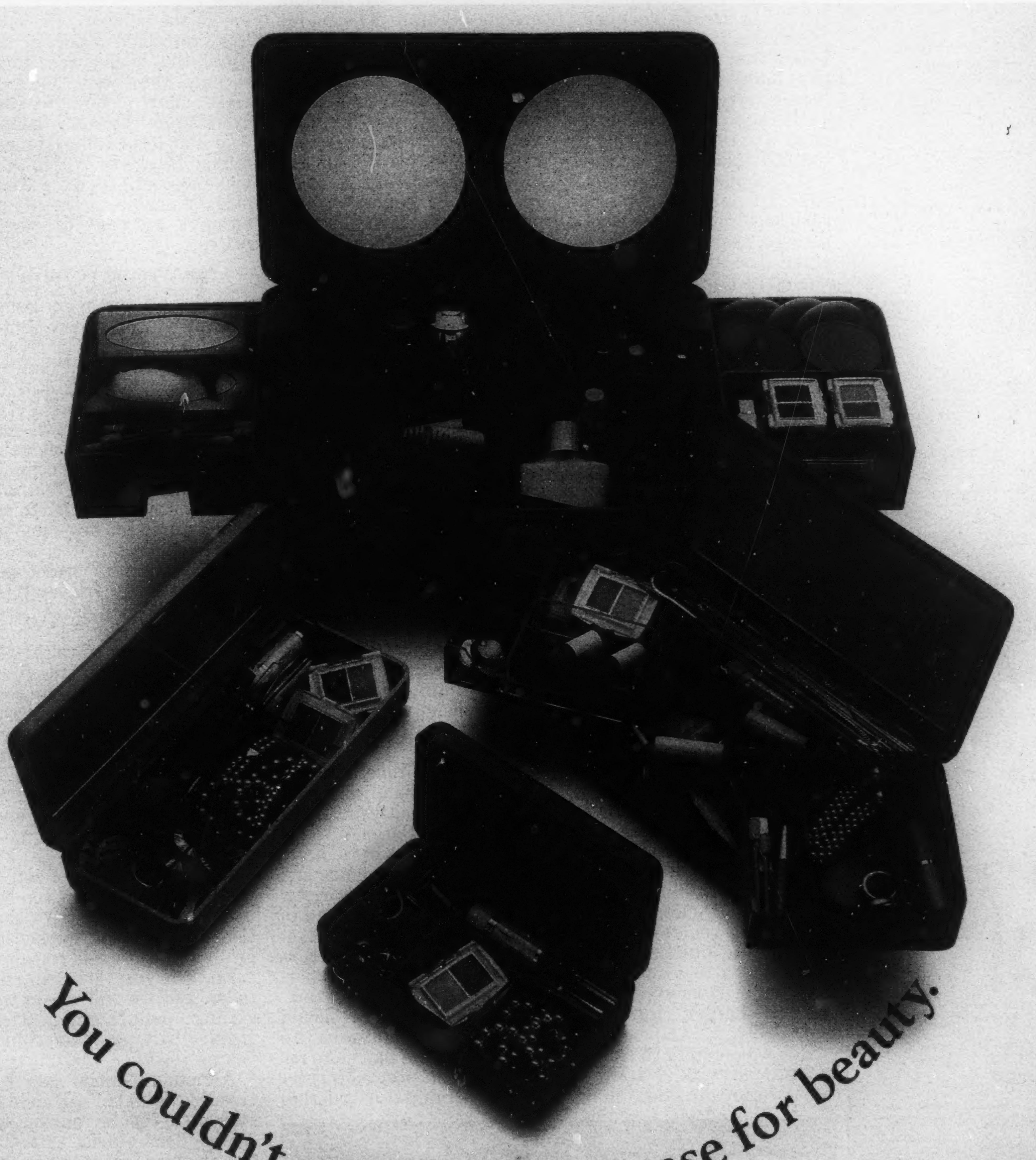
As long ago as 1984, before Meijer's 225,000-square-foot megastores became commonplace on the Grand Rapids, Toledo, Columbus and Cleveland skylines, the now 53-unit chain was the favored retailer.

Nearly 87 percent of the greater Grand Rapids market said they had shopped Meijer during the past month, compared to 71 percent at K mart, 47 percent at Sears, and 42 percent at JC Penney, according to a study conducted by the *Grand Rapids Press* four years ago.

While Meijer has the added attraction of food, that does not explain away its superior standing. When the 750 people surveyed were asked where they shopped for clothing during the prior month, Meijer still came out on top, higher than K mart, Penney, Sears and Ward, as well as traditional department stores like Hudson's and May's.

While the preference for Meijer was not by as wide a margin when examined across all merchandise lines, it is clear that food is not the only reason for its popularity.

It was highly rated for best variety and selection of merchandise, helpful and friendly salespeople, low prices and good values. In these areas, Meijer outperformed Sears, K mart, Ward and Penney. It lost to Sears and Penney only in up-to-date fashions.



You couldn't make a better case for beauty.

double-mirrored models with convenient handles. All in appealing colors with eye-catching consumer packaging, die-cut to show off the colors. And all at attractive prices.

All of which will make Pretty Neat Beauty Organizers a year-round business with beauty-conscious women of all ages. Which is exactly what you expect of the company that launched the bestselling Lifestyles™ line. And Pretty Neat Beauty Organizers will be just as successful.

For all the details about the Pretty Neat line, call our new toll-free line. In fact, you couldn't make a better connection in beauty: 1-800-537-0933.

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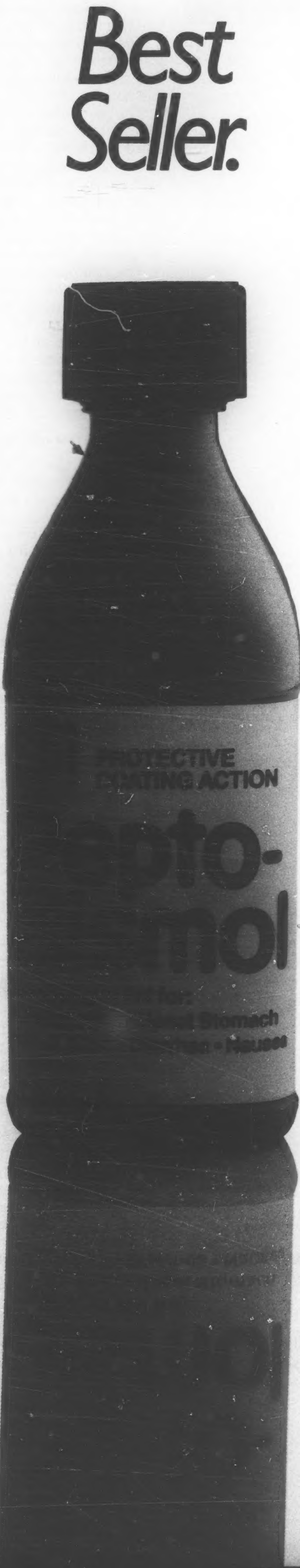


Ames Fine Tunes Stores for the '90s; Broadens Appeal, Sharpens Focus

ROCKY HILL, Conn. — With the retirement of founder and chairman Herb Gilman, the opening of new specialty concepts, the premiere of a new prototype, and the ascendancy of new managers like Jim McKitrick, Les Deitzmann and Duane Wolter, the realignment of Ames Department Stores is nearly complete.

And after the well-publicized shrinkage problem of a year ago, the company has staged a strong recovery. Sales in fiscal 1988 rose to $2.1 billion from $1.89 billion the previous year, and profits (which were affected by the shrinkage problem through most of the year) rose slightly to $57.6 million from $54.3 million. Comparable store sales rose 10 percent, and the shrinkage rate dropped to 1.6 percent, near the industry average. The company also premiered its Bargain World low-overhead, inner-city concept and laid the groundwork for Office Shop Warehouse, the office products superstore it opened this March.

Ames

	1987	1986	% Change
Sales (In Millions)	$2,112	$1,888	11.9%
Earnings (In Millions)	57.6	54.3	6.1%
Stores	488	321	52%

Source: DSN *research*

Redefined Mission

Gilman's hand-picked successor, president and chief executive officer Peter Hollis, has spent the past year redefining the $2 billion discounter's mission and the results are that the company will stick close to the formula that made it successful while experimenting with new concepts and approaches.

"Our real estate focus is clear," Hollis said. "We're going to be as rural as we can be. That is where we've been successful, and that's where we will concentrate our resources.

"We have redefined our merchandise and narrowed our price points to make them easier to understand from the customer's perspective. We're going to reduce sku's, except in 73 metro stores, where we're selectively broadening our selection. We're trying to communicate with our customers, to give Ames a sharper, clearer image."

Hollis pointed to the hiring of Jim McKitrick as a key to Ames' future direction. McKitrick, president of the company's G.C. Murphy discount and variety store division, is a veteran of K mart, The Warehouse Club and TG&Y, and will oversee the specialty retail experiments Ames plans to introduce over the next year or two. "It was my strong desire to use this division as a low-cost laboratory for new retailing concepts," Hollis said. "Jim has the combination of skills and experience to oversee that development."

McKitrick will also oversee the "redefining" of Murphy's variety store operations. "We've had to look at what a variety store is supposed to do," Hollis said. "We're expanding items like candy, stationery, flowers and wickerware, and getting out of high-cost, low-margin products like 35mm cameras and VCRs."

Variety stores, he added, are not just small discount stores, and the company has truly cleared out "inappropriate" merchandise. A recent visit to a Murphy store, for instance, revealed a huge baseball card display, ultra low-cost leisure apparel and an overwhelming attention to gift merchandise.

Committed to Bargain World

At the same time, Murphy is planning to significantly increase its commitment to the experimental Bargain World concept. Six units have opened since last summer, and 20 more of the hybrid variety/dollar stores are scheduled to open by January of 1989.

For now, the plan is to concentrate the stores in inner-city or "ethnically mixed" neighborhoods. "Why should inner-city consumers be forced to always pay more for basic necessities," Murphy vp, Jim Brainerd asked rhetorically. "As traditional retailers followed their customers to the suburbs, the ones that remained said, in essence, that if they were going to stay, they were going to make more money. So they overcharge the very people who can least afford to pay more. Bargain World will make discount-type merchandise attainable to these consumers at real discount prices."

New Prototype Intro

Late this summer, Ames will introduce its new prototype, designed by Columbus, Ohio-based Retail Planning Associates. "It will still be very clearly Ames," Peter Hollis said, "and it will cost about the same as what we're doing now. But it will communicate an '80s and '90s feel, and parts of it will be added to existing stores as they come up for remodeling."

Six of the new prototypes will be built by year-end, including one near Ames headquarters in Rocky Hill, Conn.

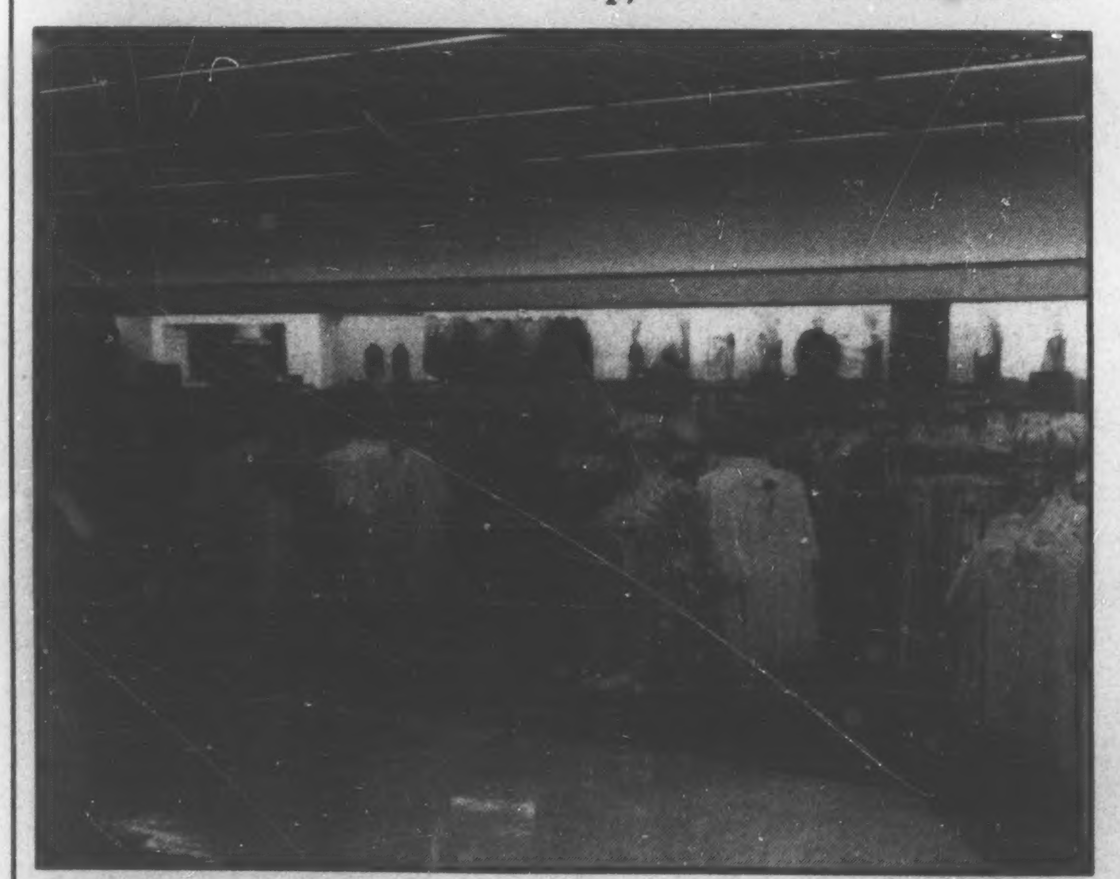
The company unveiled Office Shop Warehouse, its first, true specialty retailing concept (although Bargain World could be looked at that way) near McKeesport, Pa. It was followed in June by Crafts & More, an upscale crafts retailing experiment. Another specialty concept is waiting in the wings.

Despite the surge of activity, Hollis said that the company will "perpetuate the vision that Herb Gilman worked at for 30 years. We will remain a rural, everyday low-price retailer, and we will retain the strong, people orientation Herb built up over those years."

Although Gilman has retired to Southern Florida, Hollis said that he remains active as "our official competitive shopper. We speak on the phone regularly, and he keeps me up to date on what some of our competitors are up to."

Gilman, Hollis said, made his mark on Ames with "his very strong real estate and market research skills; he has left us with a core of very profitable stores in excellent locations. He is also a terrific merchant, particularly in hard lines. Like all great merchants, he developed a philosophy and stuck with it."

"For instance," Hollis continued, "he made a decision to limit advertising to keep costs down. Once he made that decision, he stayed with it through some tough times, and now that is a cornerstone of our operations."


Ames' new prototype (here, in Winstead, Conn.) features a modified racetrack and increased fashion-forward apparel. (DSN photo)

Best Revamps Into Store-Driven Jewelry, Hard Lines Specialty Chain

RICHMOND, Va. — Best Products has changed–it ain't what it used to be.

Once a premier catalog showroom chain, the company has reshaped itself into a unique niche merchant, a jewelry and hard lines specialty discounter that aims to be the dominant retailer in the five broad areas it merchandises.

Best Products

	1987	1986	% Change
Sales (In Millions)	$2,067	$2,142	(3.5%)
Earnings (In Millions)	47.6	(24.8)	—
Stores	194	194	0

Source: DSN research

As executives sum up the new Best, the company now is a customer-directed, store-driven retailer, rather than a catalog-oriented merchant.

At the same time, Best is probing new merchandising directions like expanding its Best Jewelry specialty store chain; developing a direct mail operation to leverage its catalog and flier experience and mailing lists; probing electronic retailing through in-store information kiosks; and teleshopping via participation in one cable system's interactive test marketing of goods from mini-catalogs from about 50 different retailers.

Within its 194 stores, Best now targets five key categories—jewelry, home goods, consumer electronics, leisure and juvenile—positioning the chain between full-line discounters, which play up a limited offering of a broad mix of hard goods, and specialty retailers that feature a deep assortment in just one category.

Jewelry, of course, remains Best's dominant category and the chain's growing success in merchandising diamonds, watches and gold items is responsible for the decision to expand the Best Jewelry chain. While no new Best showrooms will be opened this year, 15 to 20 Best Jewelry units are due, almost doubling the size of that 22-unit chain.

Jewelry last year accounted for 18.2 percent of sales, up from just 15 percent a few years ago, and 65 percent to 70 percent of profits. The company made money on all categories, except toys, last year.

Overall, Best's marketing focus is on trend setting and growth classifications like home office, home furnishing, development toys, home and office electronics, and ready-to-assemble furniture while retaining its position in such core areas as jewelry, watches, sporting goods, juvenile furnishings, housewares/appliances, and seasonal items.

Hardware and auto accessories, two minor categories where Best never established a dominant position, have been trimmed and melded into the leisure mix while the toy assortment (except for development toys) is set to be sharply cut back and featured mainly as a holiday seasonal offering. A major portion of Best's sales drop last year was due to reduced toys volume.

In reshaping itself, Best has fined tuned its merchandising to emphasize everyday low prices to meet or beat competitors on non-promoted items, eliminate redundant and slower-moving, lower-end items at opening price points, and augment its offering of new and higher-price goods.

Fewer Catalogs Distributed

The catalog, meanwhile, is now viewed as just one among a number of media used to communicate with shoppers. Cut about 67 percent to 300 pages in 1987, only about 7 million copies of the same-size book will be distributed this fall—4 million via mail and the rest through the stores—down from a total of about 12 million copies last year.

The catalog shows about 6,000 sku's, or just under half of the 13,000 items merchandised in a typical showroom.

The savings from distributing fewer copies of a smaller main catalog will be used to increase print and radio advertising expenditures. The goal of the promotional shift is greater exposure of Best's assortment through more frequent promotions to a large customer base, particularly in key buying periods.

The transformation, which began to be phased in during 1986, paid off last year when Best made an impressive turnaround. It saw $25.6 million in red ink on $2.1 billion in sales in 1986 switch to $30.5 million in net earnings on just over $2 billion in volume.

The company expects about a 2 percent sales growth, rebounding to about $2.1 billion.

Best's new merchandising and promotional effort helped boost gross margins, which went up 7.4 percent last year to reach 27.5 percent, the highest in the past five years.

A concurrent continuing reining in of expenses resulted in a 5.1 percent reduction in selling, general and administrative costs (as a percentage of sales) to 19.5 percent.

A key role in engineering Best's turnaround was played by William F. Costello, who had been executive vice president and chief financial officer. In March, he was promoted to president and chief operating officer, a post vacant since February 1987 when Robert E.R. Huntley, then president, was advanced to chairman and chief executive officer.

Get The Facts!
Use Our
Best Notes
Video Terminal
BEST
Best Notes
"Facts to know before you buy"

Best Products' probe of electronic retailing includes testing Best Notes, an informational interactive video terminal. (DSN photo)

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Coming Attraction.
NEW
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Soothing relief for:
Indigestion Upset Stomach
Heartburn Diarrhea Nausea
tw
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ANNUAL REPORT BRADLEES

Takeover Problems Spoil Strong '87 for Bradlees

BRAINTREE, Mass. — 1987 ended on a positive note for Bradlees. Sales rose 10 percent to $2.064 billion and profits were up slightly from fiscal 1986.

But the warm glow of success was short lived. Hours after the fiscal year ended on Jan. 31, 1988, The Dart Group initiated a hostile takeover of Stop & Shop, Bradlees' parent, thrusting the company into turmoil.

Now, more than five months after Dart's Feb. 1 overture, which was successfully rebuffed, the repercussions of the fight are still being felt by Stop & Shop, particularly by the company's 169-unit Bradlees discount chain.

Bradlees is being trimmed to pay off the $1.4 billion debt incurred in Stop & Shop's leveraged buyout that thwarted The Dart Group's bid.

Stop & Shop successfully completed the LBO with the financial help of Kolberg, Kravitz Roberts & Co., which now owns the company.

Bradlees ended 1987 with 171 units, and 12.286 million square feet of retail space, and will pare down to 110 stores by the end of this year.

The largest part of the chain's reduction will be the sale of Bradlees' 58-store Southern region, which posted $635 million of the company's $2.06 billion total last year.

Many of the units in the Southern region are fairly new additions to the chain and are not performing as well as the company's more mature markets, $6 million in sales on the average compared to the its $10 million goal.

Bradlees' impact on Stop & Shop's bottom line continued to lessen. According to the fiscal 1988 annual report, Bradlees' $2.06 billion sales represented 47.5 percent of Stop & Shop's total sales, down from 48.4 percent in fiscal 1987.

Bradlees' operating profit for fiscal 1988 was $56.961 million, or 48.6 percent of Stop & Shop's total, compared to 51.4 percent in fiscal 1987, 41.1 percent in 1986, 75.4 percent in 1985 and 83.4 percent in 1984.

Bradlees

	1987	1986	% Change
Sales (In Millions)	$2,063	$1,873	10.1%
Earnings (In Millions)	56.9	56.6	0.5
Stores	171	162	5.6

Source: DSN *research*

Net earnings were not broken out for Bradlees.

Bradlees had $710.1 million in "identifiable assets," according to the annual report and claimed $50.17 million in depreciation and amortization of property, plant and equipment, and lease acquisition costs.

The discounter opened 10 new stores in 1987, including the three stores in North Carolina, a new market for the chain, and refurbished 13 stores. Bradlees also introduced a company credit card, added Discover Card services and completed the installation of its new IBM POS system.

The job of president, vacated in July 1986 by Harry Kohn, who went to Stuart's Department Stores, remained open throughout 1987. But the position was filled before the end of fiscal 1988 by George Granoff, formerly Bradlees' executive vice president.

In April, when Bradlees' chairman and chief executive officer Harold Frank retired, Carol R. Goldberg, president and chief operating officer of Stop & Shop, assumed Frank's responsibilities in addition to her own.

Other recent personnel changes included Jack Kushinsky, senior vp of Stop & Shop, became executive vp of Bradlees, responsible for systems, control and administration; and Nancy Marino, who was promoted to vp and general merchandise manager of feminine apparel for Bradlees.

Sales may have risen at Bradlees but overall personnel numbers were reduced due to corporate directives. Stop & Shop made large personnel cutbacks and initiated some job consolidations at the corporate level as part of its corporate restructuring program aimed at reducing annual overhead and non-store operating expenses.

After improved sales and profits in 1987, Bradlees faces an uphill battle this year due to the aftereffects of the Dart Group's failed takeover bid. (DSN photo)

Stop & Shop cut 450 jobs, and merged the personnel, finance and systems staffs of its two divisions, supermarket and discount store chain. These moves cut corporate personnel by 14 percent and operating costs by approximately $14 million.

Those cutbacks included some top vice presidents at Bradlees, among them, Edward Cooney, senior vice president, personnel, and Richard Silverman, vice president, operations. Bradlees' merchandising staff was also trimmed. Cutbacks included Robert Whitman, vice president and general merchandise manager, home entertainment, smallwares, home improvement and toys, and Denis Donohue, divisional merchandise manager, smallwares.

Stop & Shop also consolidated its corporate offices in Braintree last year and built itself a new corporate headquarters building to house both company divisions.

So far 1988 has been a rocky road for the discounter with the LBO, store and personnel cutbacks, and the $2,500 in assessment fees Bradless paid the New Jersey Division of Consumer Affairs as a settlement for not keeping adequate supplies of advertised merchandise in its stores. Despite the payment, Bradlees admitted no guilt in the matter. Consumer Affairs was seeking $25,000 for seven separate such violations.

The bright spots include the 3 percent to 4 percent increase in comparable store sales recorded in the first quarter of this current fiscal year, which was ahead of plan; and advancing sales in home decor categories and consumer electronics.

And although store expansion is now stalled, Bradlees has opened one new unit this year, in Falmouth, Mass., on Cape Cod. The new 62,200-square-foot store is Bradlees' first store on the Cape and represents a new prototype format. The store contains merchandise and displays geared to resort community lifestyles and tastes.

ANNUAL REPORT FRED MEYER

Fred Meyer: New Leader, New Market, New Plan

PORTLAND, Ore. — Fred Meyer's last 12 months have been punctuated by an increased expansion rate and the arrival of a new leader—former K mart executive vice president of specialty retailing Fred Stevens.

Shortly after resigning from K mart in April, Stevens joined Fred Meyer as chief executive officer and chairman, replacing now-retired Oran Robertson. Robertson is still on the board, and Cyril Green, president and chief operating officer, remains at that post.

Steven's experience in Fred Meyer's Pacific Northwest territory includes time spent in the Seattle area in the '70s and the overseeing of K mart's drug store chain, Pay Less NW, based in Wilsonville, Oregon.

An industry source said Stevens had been studying Fred Meyer's operation as part of the research for K mart's hypermarket venture, American Fare. Although Fred Meyer's stores are not visually similar to hypermarkets—more resembling a cross between a discounter, home center, department store and supermarket—its product base does have the diversity of a hypermarket and some of its newer sites are hypermarket-size at about 200,000 square feet.

Stevens joins a retailer that is dominant in its six states and is aggressively opening new stores, trying new concepts and remodeling existing stores. During the last five fiscal years, Fred Meyer's total store count has jumped from 68 to 99, while 36 stores were remodeled during this time.

Fred Meyer

	1987	1986	% Change
Sales (In Millions)	$1,848	$1,688	9.5%
Earnings (In Millions)	53.9	45.4	18.7
Stores	99	93	6.5

Source: DSN *research*

In the most recently completed year, ended Jan. 30, 1988, Fred Meyer spent $79 million in capital expenditures to add 747,000 total retail square feet. While the current, multidepartment units average 112,200 square feet, new stores built over the last five years have averaged considerably higher at 146,400 square feet.

During 1987, the chain added four multidepartment units, started construction on two and remodeled four other stores. In the second half of the year, Fred Meyer introduced its first entirely soft goods freestanding store with the opening of a 25,000-square-foot site in Kenai, Alaska.

According to the company, the new venture—selling apparel, domestic products, and shoes—opened in September and exceeded its projected sales and income targets for 1987.

Shortly after this opening, Fred Meyer launched its 1,500-square-foot freestanding fine jewelry stores. Branching into specialty stores, like jewelry, has provided Fred Meyer with both greater flexibility and a chance to gain added name recognition. Since the chain is usually located in neighborhood centers, by placing the fine jewelry stores in large regional malls , Fred Meyer is able to expand its customer base.

The expansion pace will continue this year, with $100 million slotted for new stores and remodels (not including building and land costs). Current plans call for the opening of two, large multidepartment units in Oregon and Washington state, at least seven specialty stores—including a 33,000-square-foot five-department unit in Seattle—and several more fine jewelry stores.

Fred Meyer also confirmed in its annual report that: "An entrance into the Sacramento, Calif., market is high on our priority list for 1990."

The company currently has 100 stores, which combined for sales of $565 million and net earnings of $5.70 million in the first quarter ended May 21, 1988. While net sales during the period rose 7.3 percent, comparable store sales increased just 2.5 percent.

According to Stevens, the small gain was attributable to poor weather conditions this spring adversely affecting gardening, outdoor living and apparel sales, compared to favorable weather in the same period last year. This level falls sharply below the comp stores sales increase of 6.6 percent during 1987.

Net earnings increased 14.7 percent during the first period and income from operations grew 11.4 percent, primarily due to increased gross margins in higher-margin categories.

In the 1987 annual report, Fred Meyer pointed out that it has been able to increase gross margins by bringing its product mix toward more non-food items.

ANNUAL REPORT TJX COS.

TJX Cos. Steamrolls to Front of Off-Price Pack

FRAMINGHAM, Mass. — Thirteen months after being spun off by parent Zayre Corp., TJX Cos. is the industry's leading off-price apparel company.

TJX Cos., which consists of T.J. Maxx, Hit or Miss and the Chadwick's of Boston cataloger, posted a 17.8 percent increase to $1.64 billion in sales last year. That figure was enough to top Marshalls, which registered $1.6 billion in sales in 1987.

TJX overtook Marshalls not just because Hit or Miss and Chadwick's were for the first time combined with T.J. Maxx figures. In 1986, Maxx, Hit or Miss and Chadwick's totaled just under $1.4 billion in sales. Marshalls had $1.409 billion in sales in 1986. So, the fact is that TJX Cos. simply grew at a faster rate last year than Marshalls.

T.J. Maxx, which is the dominant chain of TJX, continues to be one of the most profitable off-price apparel chains in the country. With 265 units at year-end, Maxx added 39 stores last year, four more than planned, according to Ben Cammarata, who is president and chief executive officer of TJX, chairman of T.J. Maxx and acting president of Hit or Miss.

Last year also saw a 27.7 percent jump for TJX in real net income to $77.4 million from $52.2 million before a mandated accounting change for tax reasons (after the accounting change, net income increased 48.2 percent).

T.J. Maxx, which sells apparel for the entire family at everyday discounted prices (20 percent to 60 percent below department store levels), successfully expanded into the California market for the first time last year, with 10 units throughout the state.

Expansion on the West Coast was made possible when a distribution center was opened in Evansville, Ind., early last year. The DC will be expanded this year by approximately 200,000 square feet, bringing its total size to just under 1 million square feet (the chain's Worcester, Mass., DC is about 500,000 square feet).

T.J. Maxx's store refurbishing also continued on schedule last year. The chain developed a new store prototype in 1984. Since then, all new units have been constructed to conform to the prototype, and last year 19 units were remodeled. The renovation program is scheduled for completion in 1990. The average T.J. Maxx store is 25,000 square feet.

What sets T.J. Maxx apart from most other off-pricers is its emphasis on fresh selection. With each store receiving two shipments a week—over 10,000 new items—a constant flow of new goods is ensured, and the merchandise carries labels/brands recognized by the average shopper (women, age 25-49, most with children).

The reasoning behind the spin-off of the three apparel specialty operations last year was clear. While Zayre Corp.'s general merchandise discount store chain was showing sluggish sales growth, T.J. Maxx in particular, as well as Hit or Miss and Chadwick's, were doing well. The best way to maximize the growth potential of the three off-price apparel divisions was to spin them off as their own public company and raise capital.

In June of last year, that's what Zayre did, and the public offering generated approximately $200 million. (Although the stock quickly hit $28 per share a year ago, last month it was trading at 17; it had been as low as 11 after the October market plunge.) Zayre Corp. retained an 86 percent ownership of TJX Cos.

At the time of the spin-off, the three businesses comprising TJX were stimulating huge increases in net income for its parent. For the first quarter ended May 2, 1987, Zayre's general merchandise discount store earnings were $21 million on sales of $1.3 billion. The three divisions that a month later would comprise TJX Cos. had net earnings of $13.3 million on sales of $364.9 million. TJX Cos. contributed a mere 28 percent of the total firm's sales, but 63 percent of its earnings.

While T.J. Maxx maintained a strong performance through 1987 (Cammarata said Maxx had a 10 percent comp store sales increase last year), Hit or Miss, the woman's apparel off-pricer, was less robust. Acknowledging this, Cammarata recently instituted some key changes. He said he wants "to make Hit or Miss less vulnerable to the whims of fashion."

Cammarata, essentially, is edging Hit or Miss more toward the T.J. Maxx philosophy: buying closer to need, buying more national brands than designer labels, lowering inventory, and generally, "moving the chain toward more value price points."

Cammarata said Hit or Miss' strategy (average store size is 4,000 square feet compared to Maxx's 25,000 square feet) is already showing results. Sales for May, according to Cammarata, were up 5.8 percent on a comp store basis, in the face of an industrywide sluggish women's apparel business.

Hit or Miss' site selection will also be redesigned. The plan this year is to close 15 existing Hit or Miss units while opening 40 new ones, for a net increase of 25 stores this year.

The plans for Maxx are to open 40 new units this year and to continue expanding the chain's women's shoes and fine jewelry segments, which have been getting good customer response.

Comp store sales increase for TJX Cos. was 7.2 percent last year, compared to a 6.2 percent increase in 1986.

TJX Cos.*

	1987	1986	% Change
Sales (In Millions)	$1,644	$1,395	17.8%
Earnings (In Millions)	125.7	104.5	20.3
Stores	750	687	9.2

**Includes T.J. Maxx, Hit or Miss and Chadwick's of Boston*

Source: DSN research

ANNUAL REPORT MARSHALLS

Marshalls Back on Track Following Sluggish '86

WAKEFIELD, Mass. — 1987 was a key year for Marshalls, which got back on track after a sluggish 1986.

But even though Marshalls performed substantially better in 1987, it still lost its No. 1 apparel off-price ranking to TJX Cos. last year. However, as far as single off-price chains are concerned, Marshalls, which topped $1.6 billion in sales last year, is still No. 1 (T.J. Maxx recorded just under $1.3 billion in sales).

It became obvious by early last year that Marshalls had lost its way in 1986. Top management admitted that the family apparel off-pricer had gotten away during the past couple of years from what the chain traditionally did best—offering better branded apparel at price points 20 percent to 60 percent lower than most department stores.

As Marshalls continued an aggressive expansion track through the mid-1980s, and started getting undercut by other newer apparel off-pricers, the huge chain began competing more with the new off-pricers. The chain, essentially, lost its vision. Instead of making top branded and designer goods at value price points a priority, the chain began settling for less. Neutral brands no one ever heard of began showing up on racks at low, opening price points.

The chain, suddenly, was no longer carrying the right goods for the department store-type shopper.

And 1986 earnings came in below expectations, off 5 percent compared to a year ago.

So, in early 1987, parent Melville Corp. saw the writing on the wall and went about getting Marshalls back on track.

Melville brought in a new president a year ago this month, Francis H. Arnone, who came from The Broadway, the California department store.

Earlier in the year, a top merchandiser, David Dash, also was added. Dash had been at Lord & Taylor. Also added during the first half of 1987 were two senior vice presidents: Rocky Sullivan from Chess King and Jim Mixon, from Wal-Mart, handling warehouse, distribution and traffic.

This new team put a top priority on refocusing Marshalls' merchandise mix toward higher-end brands and in upscaling the stores' environment.

Before Dash, who is senior vice president in charge of women's wear and fashion accessories, all categories had just one senior vice president, Lawrence Finn. The addition of Dash enabled a split of merchandising duties and a more consumer-driven management team.

Last year's figures bear out the newly refocused chain. Sales increased 13.8 percent last year, almost double the 7 percent increase in 1986.

Melville management, in its just-published annual report, said, "Marshalls . . . successfully turned around a disappointing year in 1986 and registered strong sales and profit improvements" in 1987.

Marshalls—whose average store is 29,000 square feet, slightly larger than T.J. Maxx—opened 25 new units last year and didn't close any stores.

This year's plans call for opening another 25 units, which would bring the chain to 311 units by year-end 1988.

Currently, Marshalls has more units in California—43 of them—than any other state. Other stores are scattered through Florida (24), Massachusetts (23), Illinois (20), New York (18) and Texas (17), among others.

Marshalls

	1987	1986	% Change
Sales (In Millions)	$1,603	$1,409	13.8%
Earnings (In Millions)	NA	NA	—
Stores	286	261	9.6

NA—not available

Source: DSN research

Marshalls, as seen in this Bedford, Mass., unit, has upscaled its store environment and has also refocused on higher-end brand and designer names. (DSN photo)

Despite Priority Efforts, Caldor Profits Again Sag

Caldor			
	1987	**1986**	**% Change**
Sales (In Millions)	$1,502	$1,348	11.4%
Earnings (In Millions)	56	70	(20)
Stores	116	115	0.9

Source: DSN *research*

NORWALK, Conn. — Caldor's operating earnings again headed south in 1987, plunging 20 percent more, to below their 1982 level.

That, despite an infusion of executive talent from its sister chain, Venture, priority treatment from its parent, May Department Stores, and an 11 percent sales gain to a record $1.5 billion in 1987. Same store sales rose 7.7 percent.

Nonetheless, operating profits for Caldor sank to $56 million in 1987, while operating 116 stores, a slump of one-fifth from $70 million in 1986, when it operated 113 units.

In 1986, operating earnings had fallen 17.6 percent from a record $85 million from 106 stores in 1985.

In comparison, Caldor logged operating earnings in 1982 of $59 million—when it ran 87 stores under ownership of Associated Dry Goods.

Caldor's operating earnings as a percentage of sales fell in 1987 to 3.7 percent, May reported in its annual report, from 5.2 percent in 1986 and 6.6 percent in 1985. Return on beginning net assets also continued to decline: 15.9 percent last year; 18.8 percent in 1986; and 23.8 percent in 1985.

On a positive note, sales per square foot improved at Caldor to $140 in 1987 from $130 the previous year, possibly a benefit from switching to high-profile merchandising.

Both May and Caldor spokesmen declined to comment on the chain's continued decline in operating profits.

Capital expenditures increased to $33 million in 1987 from $31 million in 1986. Caldor opened three new stores last year, down from seven in 1986, and remodeled an undetermined number of existing stores.

It has opened all three of its planned new stores for 1988, pushing the total to 119.

Caldor opened new units this year in Waterford, Conn., Somerdale, N.J., and Warminster, Pa. The last two are both in the metro Philadelphia market.

Last fall it opened new stores in Philadelphia, Plainsboro, N.J., outside Princeton, and in a new market, Westminster, Md.

Its home state of Connecticut accounts for the largest number of units, 31, followed by New York, 30; Massachusetts, 23; New Jersey, 19; Maryland, eight; Pennsylvania, four; Rhode Island, three; and New Hampshire, with one unit.

May intends to invest $245 million during its 1987 to 1991 expansion program to open 42 Venture and Caldor stores, adding 3.5 million square feet in retail space.

The May 1987 annual report states in its review of operations that Caldor continued last year "the effort begun in 1986 of repositioning Caldor's inventory and implementing competitive pricing policies. The investment being made in these programs is substantial and has considerably improved Caldor's position in the marketplace." The review says nothing, however about why operating profits fell for the second year in a row.

Operating profits also declined at Venture, but May attributed the $10 million decrease to $70 million in 1987 from $80 million in 1986 to a change in LIFO accounting.

When May acquired Caldor, it raided Venture's executive suite to overhaul Caldor. It brought in Venture chairman Don Clarke to become chairman and chief executive officer of Caldor and shifted Marc I. Balmuth from executive vice president, Venture, to president, Caldor.

In addition, it made Venture's store operations chief, Michael R. Lynch, Caldor's new vice president and director of stores. May also brought in from various department store divisions three other vice presidents: John Cook, chief financial officer, Elliott Kerbis, general merchandise manager, hard lines; and James D. Lee, general merchandise manager, soft lines.

In 1987, Caldor launched a program to revitalize its stores, using K mart and Wal-Mart-type merchandising methods, including higher-profile displays, using more bargain tables and setting sharper prices.

In a move to slash shrinkage of high-ticket items, consumer electronics, housewares and apparel, Caldor installed in 15 stores last year the Chek/Link soft-tag Electronic Article Surveillance system that employs checkout counter deactivators and exit monitors. The installations, made in two stores in Massachusetts and the remaining 13 in New York and New Jersey stores, cut shrink rates by five to six percentage points. In the affected stores, shrinkage was running as high as 7 percent to 8 percent, an industry source said.

Caldor plans this year to install this system in 15 additional stores with high shrink rates, the source said.

In addition, Caldor began refurbishing what ceo Clarke called Caldor's "old, tired-looking stores" with new paint schemes and carpeting.

What Caldor hasn't done is to begin addressing its lag in cash register scanning. "We don't have scanning, but it is in the plans to be tested," a Caldor source said. No time frame when that testing would begin is available, he said. At this time last year, Caldor said that scanning would have to wait until its sister chain, Venture, completed its scanning conversion, expected by the end of this month.

Hills Growth Streak Hits 30 Years, and Counting

CANTON, Mass. — At Hills Department Stores, 1987 contained these very memorable achievements:

- It was the company's 30th anniversary in the discount store industry;
- The 30th consecutive year of positive operating income and sales growth;
- The beginning of once again operating as a publicly-held company.

On a sadder note, last year also marked the death of company chairman and founder Herbert Goldberger, who founded Hills in 1957.

Goldberger was succeeded by his son Stephen Goldberger, president and chief executive officer, who received the additional title of chairman of the board on Feb. 1, 1988.

And Hills won *DSN*'s Discounter in Service to the Community (DISC) award for its many and varied community service projects, particularly the discounter's support of the "Just Say No" to drugs and alcohol program.

In 1987, Hills began focusing on store expansion, a program the discounter will accelerate in the coming years. The expansion is a result of the discounter's improved cash flow from its new status as a public company. The 151-unit retailer opened 11 stores in 1987 and will open 16 this year for a total of 168 units by the end of 1988.

Hills became a publicly-held company in July, after about two years as a private company achieved through a leveraged buyout in late 1985.

The opening stock price was set at $11 a share and hit 12⅝ points a share before October's stock market crash. After Black Monday, Hills' stock plunged to 5¼ points a share. Since then the stock has recovered to about the $9 per share level.

Last year, Hills recorded $1.51 billion in sales, a 12.7 percent increase over 1986.

Comparable store sales for the last fiscal year increased 4.9 percent.

Operating profits for the chain rose 9.6 percent over 1986. At the same time, net profit rose to $32.5 million from a loss of $14.8 million in the previous fiscal year when Hills was still paying off the costs of the LBO.

The cost of sales as a percentage of total volume in fiscal 1987 increased to 71.0 percent, from 70.4 percent in fiscal 1986. The increase was due to efforts to increase market share, and the increased sale of hard goods which typically carry lower margins. The hard lines categories that performed particularly well for Hills last year were health and beauty aids, hardware, electronics, and appliances.

Gross margins dropped slightly in 1987, to 29.0 percent from 29.6 in 1986.

Last year, approximately 55 percent of all Hills' sales were attributed to soft lines, such products as apparel, domestics, home furnishings and jewelry. The balance, was in the hard lines areas, including toys and housewares.

And again, the typical Hills customer, 80 percent, was female from low- to moderate-income families.

Hills continued to emphasize its "Made In America" program in 1987 and reported that 80 percent of all its apparel sku's are American-made.

In keeping with the company's everyday low cost image, advertising expenditures as a percent of total sales were kept to 1.8 percent, a fairly constant number for the discounter.

Approximately half of the ad budget was spent on TV spots. Hills produced only three major circulars last year, at Christmas, back-to-school and Mother's Day, in addition to some smaller, market-driven circulars.

Hills broke into some new markets last year: the state of Michigan and Indianapolis.

Hills opened seven stores in Michigan in 1987, five in the Grand Rapids market and two in southern Michigan, in the Toledo area. In addition, four stores were added in Ohio and one in New York state.

This year, Hills hopes to open its first store in its headquarters state of Massachusetts, a unit that was to have opened last fall. The store, located in a new mall in Pittsfield, Mass., in the Albany, N.Y., market, hasn't opened because of unexpected zoning problems on the part of the mall's developer. The Hills unit, like all the other mall tenants, have been prevented from opening, although the unit is complete.

Only 10 of the new store sites slated to open this year have been identified by Hills executives. They include five stores in Ohio, three in Pennsylvania, one in Michigan and one in Indiana. Seven of the stores will contain 80,000 square feet and three will have 62,000-square-foot formats.

Last year was also highlighted by a Hills executive's testimony before a congressional subcommittee on the minimum wage.

George R. Friese, vice chairman of the board of directors, spoke before the House Subcommittee on Labor Standards on behalf of the International Mass Retail Association—which company chief executive Steve Goldberger is chairman of this year—to oppose a proposed increase in the minimum wage.

Friese told the committee that an increase in the minimum wage would "undermine our ability to provide employment opportunities for inexperienced entry-level workers" that will result in 882,000 fewer jobs, more than 40 percent of which will come from the retail sector, excluding restaurants.

Hills Department Stores

	1987	1986	% Change
Sales (In Millions)	$1,514	$1,343	12.7%
Earnings (In Millions)	103.5	94.4	9.6
Stores	151	136	11.0

Source: DSN *research*

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ANNUAL REPORT COSTCO

Costco Enchances Services to Boost Market Position

SEATTLE — Looking to enhance its niche in the competitive membership warehouse club industry, Costco recently opened two California locations, each with a deli, fresh meat department, scratch bakery and an expanded produce selection.

Located in the San Francisco Bay Area and greater Los Angeles market, the two warehouses each boast 125,000 square feet—about 25,000 square feet larger than a typical membership warehouse club—in order to accommodate the additional merchandise.

Costco first began testing the expanded food selection in a Seattle site last year, and while the concept has been placed in the two additional sites, it is still in a test phase, said company chief financial officer, Richard Galanti.

The expansion into the latest areas allows Costco to test the concept in three major markets, Galanti noted. He said additional warehouses opened later this year and some current warehouses could be expanded to include the additional food products. Under its present test mode, the concept is operating on a "so far, so good" basis, Galanti said.

Currently, Costco operates 43 warehouses, a total the company reattained with three openings this spring after having closed the same number in the Midwest in May.

Costco operated the three Midwest sites for over a year, but decided in April to abandon the unprofitable locations and concentrate on its successful markets. According to Galanti, Costco did not give up the Midwest casually, having first tried several different and expanded marketing techniques to draw more business.

Since the closure, Indianapolis-based Wholesale Club announced it is planning to open in one of the former Costco sites this fall.

Costco plans to open four additional sites by the end of its fiscal year in August, and the company expects to have about 52 warehouses by December and some 62 by the end of the following year, according to Galanti.

Of the new sites already opened this year, the only one outside California places Costco in a new market—Honolulu. Costco is the first membership warehouse club to enter the 50th state, so the company's initial ads not only announced the opening but explained the concept.

While adding a new market this year, Costco is also continuing to roll out its pharmacy departments. The company currently operates pharmacies in 18 warehouses and expects to have them in 23 to 25 by December. In order to reduce personnel costs, Costco is initially operating the pharmacies in its West Coast locations.

Costco has also experimented with optical centers, with four currently operating, but there are no immediate plans for this department's expansion.

The most recent financial results for the company showed its sales had climbed to $875 million after its first six months of fiscal 1988, an increase of some 58 percent over the same period in the previous year. Net income of $10 million during the first six months was also up substantially over the previous year's total of $1.69 million.

At the same time these results were reported, Costco also announced the launching of its preferred member credit card, following in the steps of other warehousers like PACE, Buyer's Club and Price Savers.

Initiated first in the Pacific Northwest, the card was rolled out in all warehouses last month, is available only to business and Gold Card members and costs $15.

Seattle First National Bank, the card's sponsor, isn't charging Costco a merchants' fee.

Costco

	1987	1986	% Change
Sales (In Millions)	$1,370	$747	83.4%
Earnings (In Millions)	5.3	4.5	17.8
Stores	43	38	13.2

Source: DSN research

Costco ranked No. 3 among warehouse clubs with 43 stores and $1.4 billion in revenues ($1.37 billion in sales, $30 million in membership fees). (DSN photo)

ANNUAL REPORT CIRCUIT CITY

Circuit City Still Shining in Lackluster CE Market

RICHMOND, Va. — After its blitz of Los Angeles in 1986, Circuit City encored in 1987 with an eight-store invasion of San Francisco. Sales at the country's leading home electronics specialty retailer increased from $1.1 billion in fiscal 1987 to $1.35 billion.

Net earnings rose from $35.3 million to $50.4 million, a 43 percent jump. According to the company, this marks five consecutive years of record earnings, and Circuit City has, according to its annual report, "provided the highest return to investors over five years of any company listed on the New York Stock Exchange."

The company also noted that other companies in roughly the same bracket, Toys "R" Us and Home Depot, were similar to Circuit City in that all three are "innovative, intensely merchandised store formats, [bringing] unprecedented selection and value to consumers in previously inefficient retail segments."

Circuit City's performance is particularly notable when contrasted with the home electronics field as a whole. With the exception of compact disc players, sales have been stagnant or down in virtually every product area, and several large CE chains, most notably New York-based Crazy Eddie, are in trouble. In an uncertain economic climate, consumers tend to forgo luxury items, and additional audio and video equipment tops that list.

With that in mind, industry analysts predict a very modest 2 percent increase in CE sales for this year and most retailers plan on, at best, limited expansion.

Circuit City, on the other hand, plans to add 20 stores to the 105 it already operated at year-end, including outlets in Florida, Northern California and Nevada, all new markets. Plans have also been made to open a new distribution center.

So for this year, with only two new outlets open, sales continued to grow. First quarter sales were up 33 percent to $326.1 million and May sales jumped 31 percent over last year to $121 million. If, as analysts have predicted, a slump is in store for the industry leader, the time has evidently not arrived. Comparable store sales during the first quarter were up a healthy, if less than dazzling, 5 percent, dipping to 4 percent in May.

According to the company's president, Richard Sharp, Circuit City believes it can grow to about $4 billion. A key to that growth is its superstore format, which has seen the company replace small 10,000-square-foot outlets with far larger 32,000-square-foot stores. As it opens more superstores and converts or replaces older ones, the gross sales per store will naturally grow. At year-end, 76 of the 105 stores were superstores.

Perhaps due to the explosion in consumer electronics over the past few years, a slump over the next year or two is almost inevitable. At the Chicago CES expo last month, truly new products were few and far between.

Many smaller retailers were under the impression that new compact disc recorders would be available in the near future; however, the technology, presently being developed by Tandy Corp., is at least two years away.

Likewise, the announcement that Teac will introduce digital audio tape recorders to the American market this month was met with far more press attention than dealer interest. The handful of machines scheduled to go on sale will retail for more than $5,000, and widespread availability of digital audio tape recorders in a more affordable price range is probably two or three years away.

That leaves one exciting product, Sony's 8mm personal video player. With over 1,000 movie titles now available, and a lot more due to be released, this product could turn out to be the Walkman of 1989. However, there are questions regarding availability and the price point (over $500) may be too high for most consumers.

For now, Circuit City's growth will continue to be primarily at the expense of its competitors, as it moves into new markets and expands in older ones. However, other regional chains are also growing, and traditional discount stores seem poised to jump back into consumer electronics, which means the market is going to be a lot tougher through the next year or two than it has been in recent years. Circuit City will continue to grow; the question is "how much?"

Circuit City posted its fifth consecutive year of record sales last year. Despite a second-half slowdown in the market, net earnings increased 43 percent.

Circuit City

	1987	1986	% Change
Sales (In Millions)	$1,350	$1,011	33.5%
Earnings (In Millions)	89.2	71.5	24.8
Stores	105	87	20.7

Source: DSN research

Rose's Hangs Tough as Competitors Invade Its Southeastern Markets

HENDERSON, N.C. — Rose's Stores faced 56 new challenges during 1987, and there is no reason to think this year will be any easier.

A trio of new general merchandise managers and a new vice president of merchandising were among the changes made during 1987 to meet the new competitive challenges.

"During 1987, 56 of our stores had a new competitor in its market for less than a year, including Wal-Mart, Ames, Zayre, Bradlees, Gee Bee, Jamesway, K mart . . ." said Jack Bush, Rose's president.

The nearly 12 percent rise in sales and 3.2 percent same store sales increases were achieved despite this mounting competition. Wal-Mart is quickly becoming Rose's most formidable competitor. The nation's No. 2 discounter opened 47 stores in Rose's markets in 1986; by the end of 1987 that figure had risen to 73 of the chain's 237 locations.

Despite rising sales, earnings before income taxes dropped about 28 percent to $31.6 million from $43.6 million. Competition no doubt played a roll in the earnings drop, but other factors also had a one-time negative effect on the income.

Bush said that 1987 earnings at Rose's were considerably impacted by a $5 million LIFO charge. The Southeastern chain is also in the middle of an extensive expansion and remodeling program; 205 of the 237 units have either been opened or remodeled within the last five years, Bush said.

Other expenses incurred during the year included 23 new store openings and six older stores closing or being replaced with an equal number of larger replacement sites. Also, Bush said the chain's 850,000-square-foot distribution center is in the final stages of a systems renovation which will result in a fully automated distribution center within the year.

All of these investments were part of the chain's efforts to fortify itself against the steady influx of competition, Bush said, as is the company's investment in its merchandising and store level people.

Among the headquarters additions during 1988 were: Bob Floum, vp, merchandising; Doug Harris, apparel, gmm; Gary Hanson, hard lines, gmm; and Bob Sasser, home lines, gmm. "We intend to build the best merchandising team possible," said Bush.

The three gmms also signal a change in Rose's merchandising approach. Until recently, there had been two gmms, one for hard lines and one for soft lines.

Many have determined that sales growth in home fashions and apparel could be further exploited by recognizing the interrelated nature of soft lines merchandise, such as domestics, with hard lines departments, like housewares.

In addition to headquarters personnel shifts, there have been staff changes at the store level.

Bush said that Rose's has been keeping a close watch on the store level "team" that is up against new competition.

"We start looking at the management staff ahead of time, before the competing store has opened," he said. Store managers are sometimes changed or specially trained in markets where new competitors have arrived.

Rose's

	1987	1986	% Change
Sales (In Millions)	$1,337	$1,199	11.5%
Earnings (In Millions)	31.6	43.6	(27.5)
Stores	237	222	6.8

Source: DSN research

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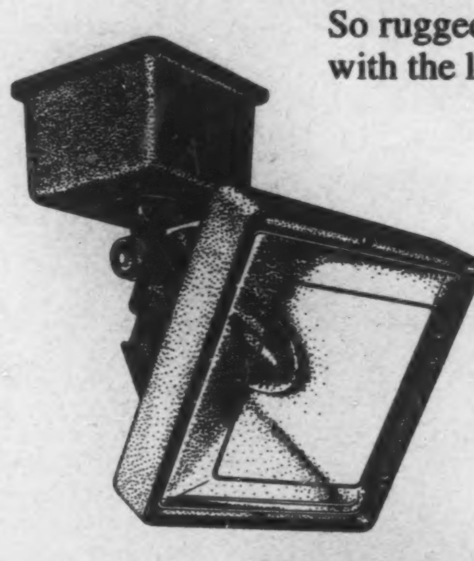

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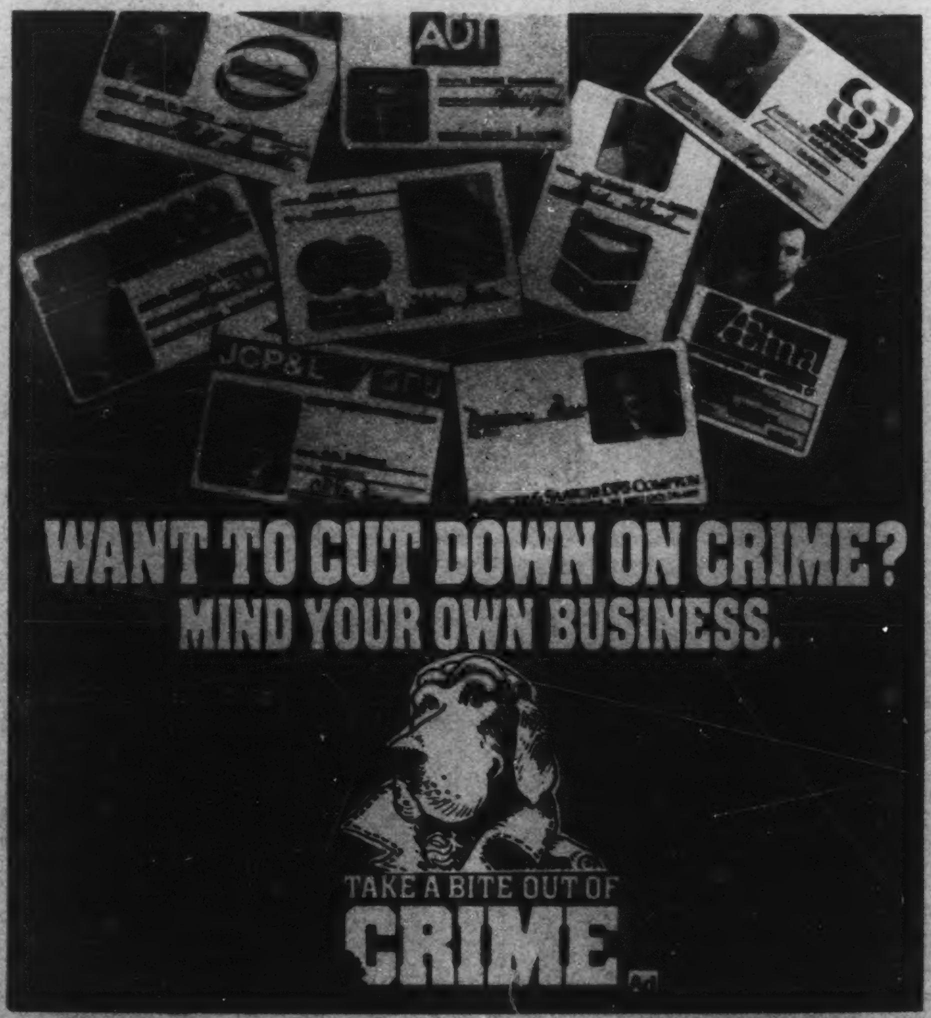

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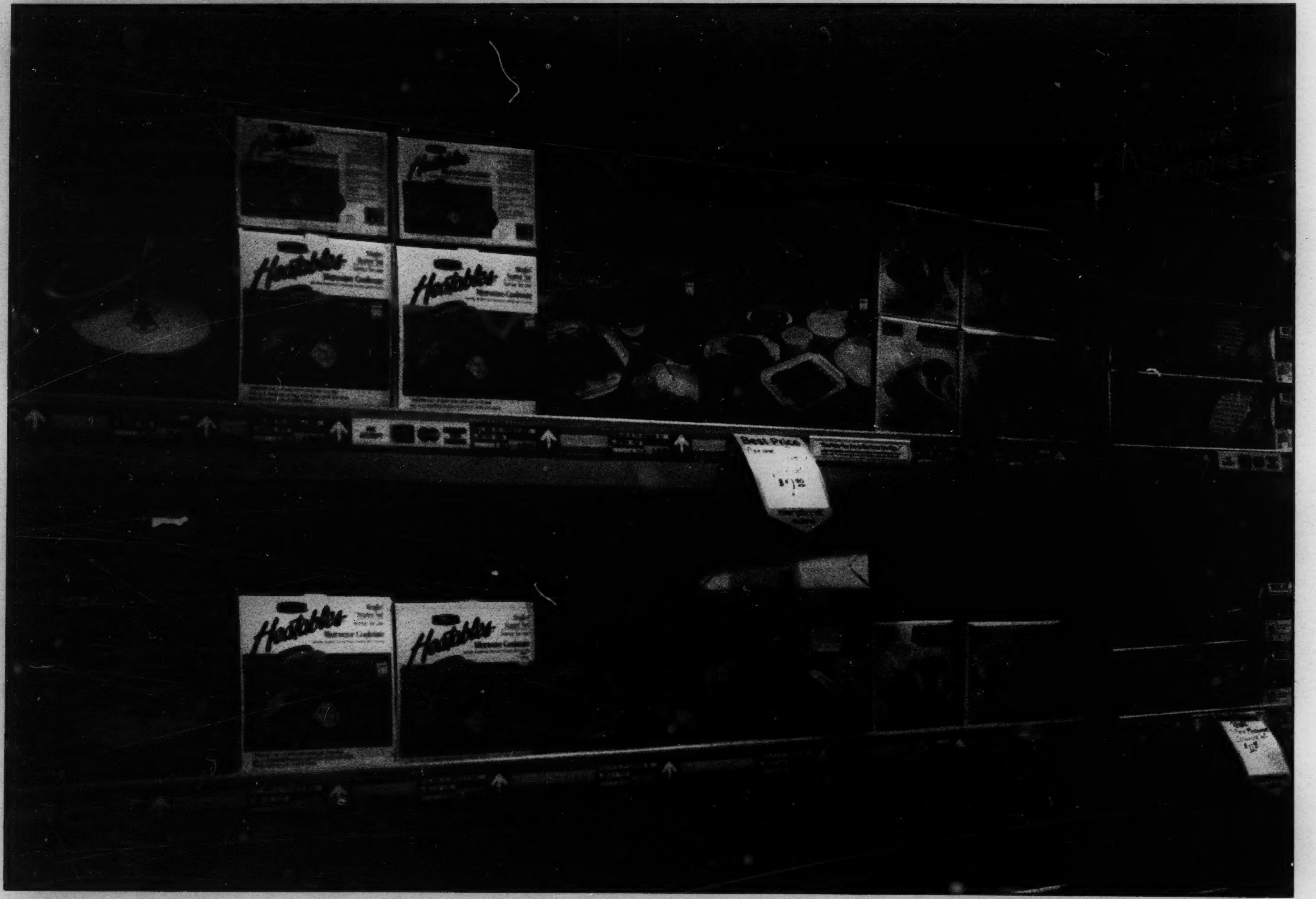

Microwave cookware sales are strong despite microwave oven market saturation, according to a recent DSN *study. (Makro, Cleveland.)* (DSN photo)

Discounters Favored for Microwave Cookware

By Mary Ellen Kelly
Nationwide DSN Report

Discount department stores in particular are positioned to benefit from rising sales of microwave cookware and accessories. The discount department store was singled out by nearly 40 percent of U.S. consumers who own or plan to buy a microwave oven as the preferred outlet of choice for making microwave cookware purchases, according to a survey conducted for *DSN* by the Chicago research firm, Leo J. Shapiro & Associates.

Thirteen percent of that consumer group specifically cited K mart as their store of choice, while 11 percent named Sears, Roebuck & Co.

Retail buyers and vendors asked by *DSN* to comment about the study's findings agreed that while demand is not quite as strong as it was in the past, the market for microwave cookware is far from saturated.

Demand is especially high among consumers under the age of 35. The older the shopper, the less likely she is to need additional cookware pieces, the study showed.

About 40 percent of microwave oven owners said their cookware collection is not yet complete. Of those, nearly 60 percent expect to purchase their cookware collection piece-by-piece rather than as a set.

Harry Fishman, president of Eagle Affiliates, the Brooklyn, N.Y.-based microwave cookware supplier, said that his company has found that individual pieces outsell prepackaged sets by a ratio of 6-to-1.

As a result, Fishman is phasing out some of the company's boxed sets. "Sets are an old-fashioned way of marketing the product. Now we have individual pieces in sleeves that cover only about 25 percent of the product. Sales have been tremendous compared to boxed cookware sets," he said.

Noreen O'Reilly, buyer for Jamesway, the Secaucus, N.J.-based discount chain, said the retailer still stocks some sets, but is concentrating on open-stock microwave cookware in its 12-ft. department.

O'Reilly has tailored Jamesway's assortment to the shopper who is now aware that her microwave oven does not require highly specialized cookware, and who will not pay prices that are higher than conventional oven cookware.

"A year ago the price range was $8 to

(Continued on page 161)

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Discount Stores Should Benefit Most From Microwave Replacement Sales 162

Discounters Preferred for Microwave Cookware

(Continued from page 159)

$20 and now it is $2 to $14," O'Reilly said. Department sales increases were double-digit last year, and are expected to be in the 10 percent to 20 percent range again in 1988.

Cookware sets were also among the sku's eliminated at Ames Department Stores when the Rocky Hill, Conn.-based discounter decided in April to cut the department in half, from 16 running feet to 8 running feet.

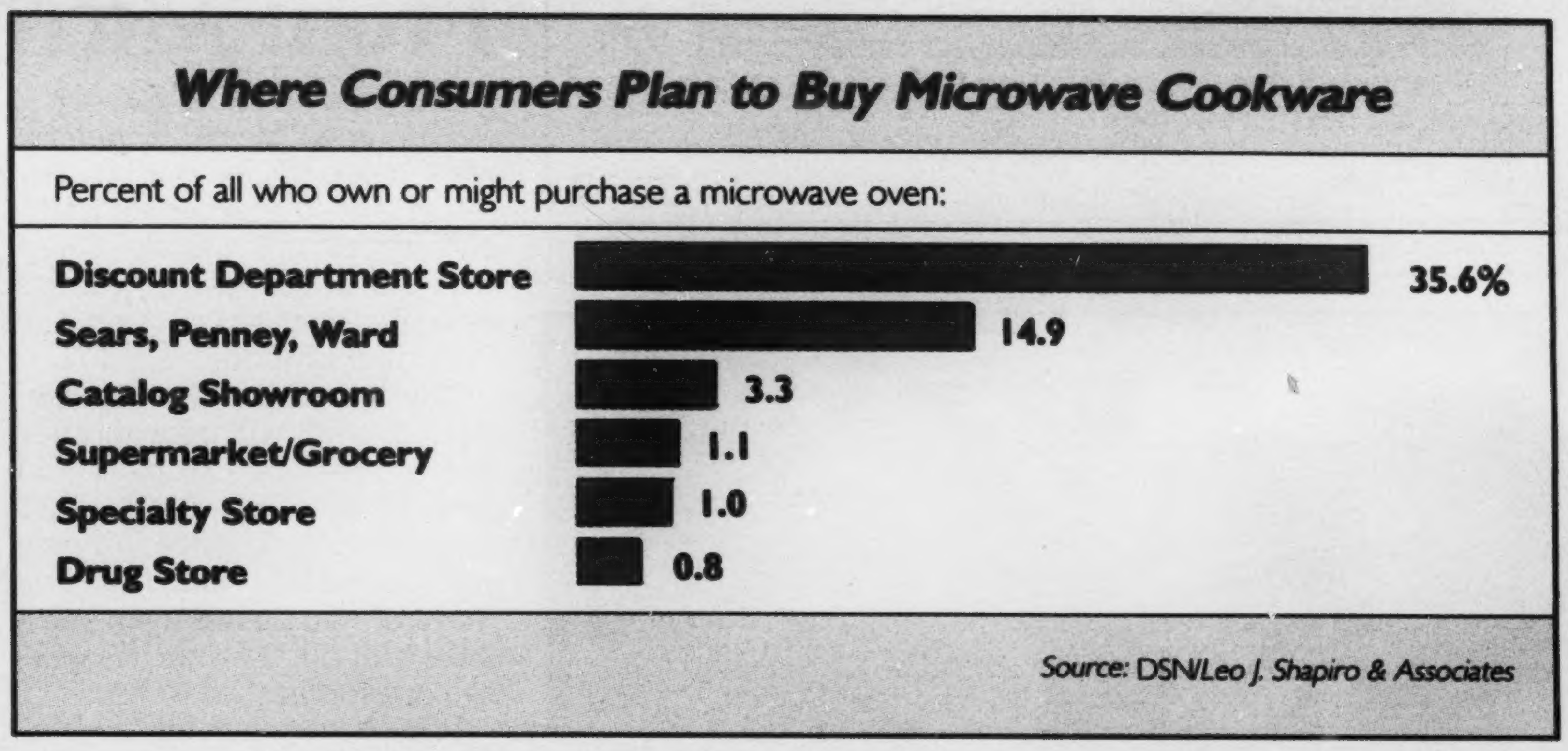
If a retailer's assortment is predominantly plastic, he is missing the majority of his sales opportunities, the study indicated.

"Microwave accessory sales have been very soft for us in the past year or so," said Jim Aglio, Ames vice president, general merchandise manager, home furnishings. "One explanation is that the customer realizes she doesn't have to buy specialized housewares to use in the microwave, another is saturation."

If a retailer's assortment is predominantly plastic, he is missing the majority of his sales opportunities, the study indicated. Glass is the preferred cookware material, and represents the only microwave cookware where there is considerable brand preference, according to the survey.

Where Consumers Plan to Buy Microwave Cookware

Percent of all who own or might purchase a microwave oven:



Source: DSN/Leo J. Shapiro & Associates

Fifty-five percent of consumers said they preferred glass cookware when compared to a third of respondents who opted for plastic. When asked about disposable cookware, 35 percent said they might buy some in the future.

Corning Ware and its Corelle and Visions brands were mentioned by 25 percent of all respondents who own or might buy a microwave oven, as the brand of cookware they would choose. Several other brands were mentioned including Pyrex, Tupperware and Rubbermaid, but each of them generated less than a 5 percent response rate.

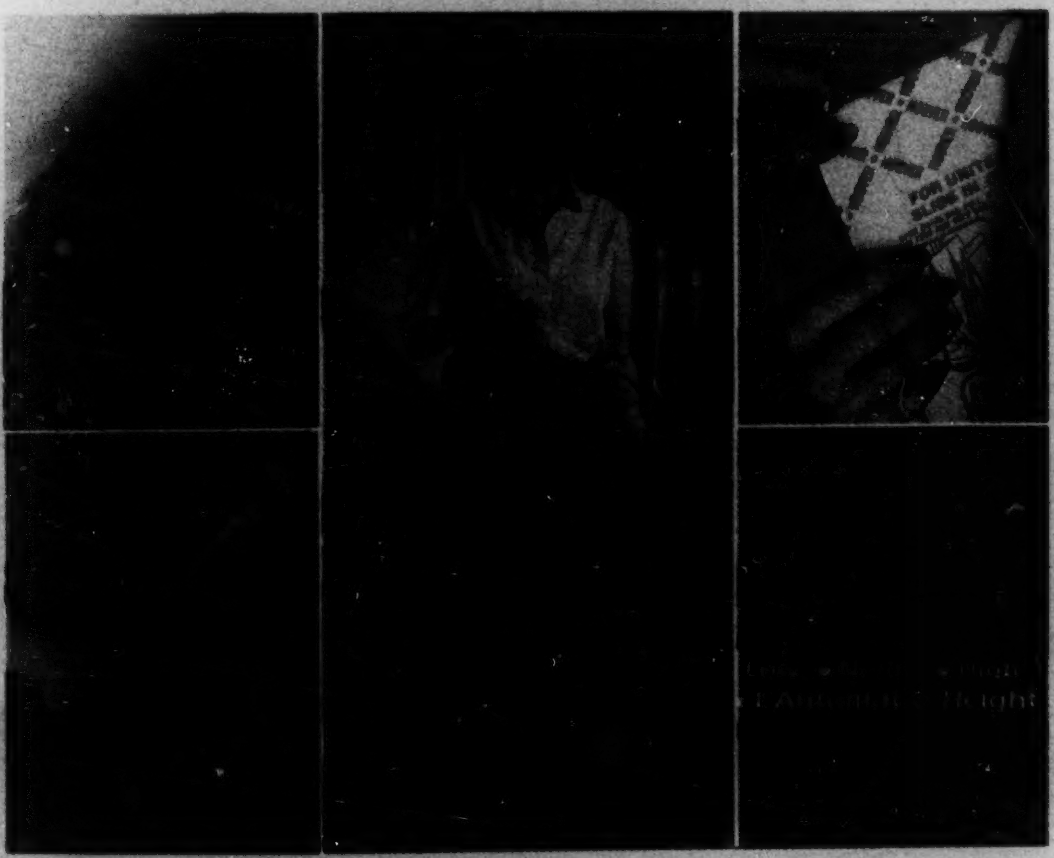
Al Donnelly, spokesman for Corning Glassworks, said the company's launch of its single-serve Visions cookware line is meant to further develop its microwave user business.

Clover offers shoppers glass cookware marketed for microwave oven/storage use. Among consumers looking to buy microwave cookware, glass is preferred.

Discounters like Venture, Kansas City, Mo., were the preferred retail outlet among consumers who were in the market to purchase microwave cookware.

Microwave cookware sets, like these at the Martha Stewart Kitchen Korner, K mart, Atlanta, are losing favor to individual pieces.

(DSN photos)



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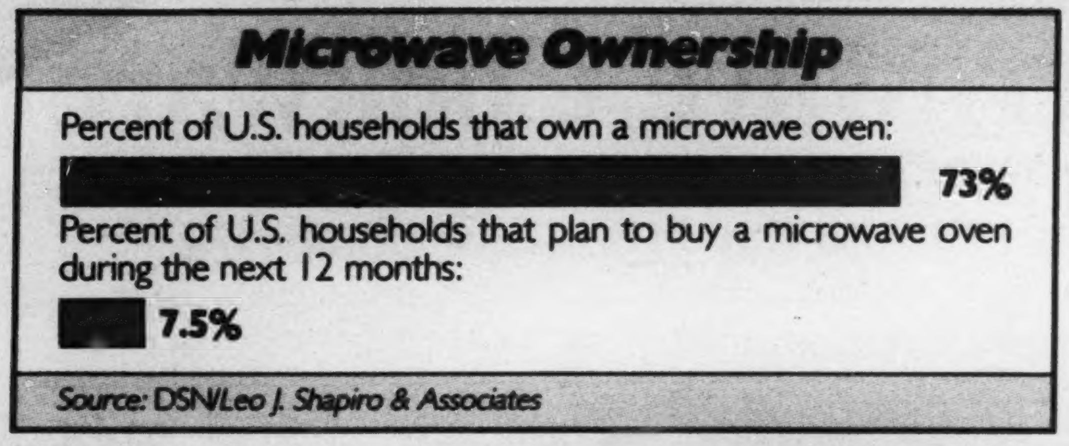
Discount Stores Should Benefit Most From Microwave Replacement Sales



Source: DSN/Leo J. Shapiro & Associates

FITTING ROOMS

Full size, higher-ticket microwaves like these at Carrefour, Philadelphia, will be preferred by second-oven shoppers. (DSN photo)

Nationwide DSN Report

The good news in microwave ovens: there is a healthy replacement market simmering, especially among those who did not invest in a large capacity microwave oven the first time around.

The bad news: the replacement market will take another five to ten years to peak and until then, while the market for first-time buyers is nearing saturation. The last two years of microwave oven sales were a lot better than the next two are forecasted to be.

Whether consulting the statistics prepared by the Association of Home Appliance Manufacturers, or talking with microwave oven vendors and discount retailers, this consensus emerges: market saturation is not far away; those interested in becoming two-oven owners are limited; and the replacement market probably won't heat up for another five to ten years.

Research conducted in May for *DSN* by the Chicago-based research firm, Leo J. Shapiro & Associates, revealed that 73 percent of U.S. households presently own a microwave oven, up from 56 percent two years ago.

While that still leaves 27 percent as perspective buyers, 19 percent of the survey population—450 households—said they have no interest in owning a microwave oven, leaving the industry just 8 percentage points from total penetration.

Discounters were not selected as the preferred choice of leading retailers for microwave oven purchases, mentioned by only 16 percent of respondents who said they will buy a microwave during the next year. Six percent mentioned catalog showrooms and 7 percent mentioned conventional department stores.

In comparison, about 25 percent planned to buy a microwave at Sears—which was one of the few retailers mentioned by name. Another 25 percent would shop at an appliance specialty store, or appliance superstore.

One out of 6 looking to buy a microwave are undecided about where to shop.

No doubt the temptation among full line discounters would be to drastically pare the store's oven assortment, but industry sources suggest that maintaining adequate visibility in microwave ovens now will pay off in the future.

Replacement Models

When looking for a replacement model, these educated consumers will no longer need the guidance of a specialty store, but will go to the discounter for sharp prices.

Steve Sherman, national sales manager, Sanyo, said that despite a flattening and possibly declining microwave oven market, discounter sales have the potential to climb.

"Consumers used to go to a specialty store, but people are highly familiar with microwave ovens now. It can become a larger category for the mass market. The mass retailers' segment of market does not need to be as impacted."

The *DSN* study indicated that price has become more of an issue among consumers. On average, survey respondents expected to pay $291 for a microwave compared with $379 just two years ago.

Most of those interested in buying a microwave during the next 12 months expect to buy a full-size model, especially as a replacement oven. About 25 percent are looking to buy a mid-size. One out of 8 are shopping for a compact model, especially first-time microwave oven buyers.

Sherman said Sanyo's research estimates a 50 percent to 60 percent market saturation in microwave ovens, but is uncertain what that bodes for the future. "Will a microwave oven be like a refrigerator where 98 percent of households have one? Or closer to 70 percent like a washing machine? No one knows for sure."

Craig Schultz of the AHAM's market economics department said the association estimates that market penetration is currently 70 percent or more.

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Harts Opens Hypermarket in Ohio

(Continued from page 1)
had all the expertise it needed already within its organization, it made sense to develop a Big Bear hypermarket concept, Godfrey explained.

"When you walked out of that IMRA convention, you shook your head and thought, 'I'd really better start thinking about hypermarkets.' Right now hypermarkets are only in larger cities, but that doesn't preclude anybody else from going to smaller markets [like many Harts stores.]"

Shoppers were told that Big Bear Plus is "A Whole New Animal," and that the company "combined the best of Big Bear and the best of Harts," when designing the new store.

Unlike other hypermarkets, such as Wal-Mart's Hypermart USA, Big Bear Plus has not sacrificed merchandise variety for depth in most departments. While Wal-Mart may have eliminated sku's that were not the top sales leaders (as it does in its Sam's Wholesale Clubs), Big Bear Plus stores currently offer the same assortment of merchandise as Harts discount stores.

The Columbus-based company made these changes at the two Ohio stores:

- Removed the wall separating its grocery and general merchandise operations;
- Lowered margins on general merchandise by 4 percent to between 26 percent and 27 percent on general merchandise, with a smaller margin reduction in food departments;
- Eliminated all duplication of product that existed between Harts and Big Bears in departments such as health and beauty aids, snack foods, housewares and alcoholic beverages;
- Combined general merchandise and food checkout registers;
- Installed a neon "Express" fixture over two cash registers for cash-only and limited-item purchases;
- Extended everyday store hours to 7 a.m. to midnight (formerly store hours were 9:30 a.m. to 9:30 p.m.).

Further alterations to be made at the Wintersville and Bridgeport stores during the year include the addition of departments such as seafood, bulk foods and cheese shop, as well as the movement of bakery and alcoholic beverages and other food departments to different areas within the food portion of the store, Godfrey said. Unlike most full-fledged hypermarkets, there are no plans to add freestanding service departments to the format, other than a hair salon.

During the next year freestanding fixture walls will also be brought in, he said, to help "departmentalize" certain areas and "better define certain merchandise categories," while still being modular.

He also noted that the 100,000-square-foot Bridgeport store and the 140,000-square-foot Wintersville store devote roughly 35 percent of space to food and 65 percent to general merchandise, but the goal is to adjust the assortment over time to 40 percent food and 60 percent general merchandise.

The two Plus stores are among the six locations with general merchandise that have scanning capability. The company is comparing an NCR and an IBM model.

The two Plus stores just opened are equipped with the NCR 7000. In addition to totaling the sales, it provides two subtotals for food and general merchandise. This way consumers can opt to use a charge card for general merchandise purchases, while paying for food in cash. (Food cannot be paid for with charge cards at Plus stores.)

Godfrey expects that all Harts (and Big Bear Plus) stores will have scanning capability by this time next year.

The company's 62 Big Bears and 32 Harts stores share seven common sites. To date, there are no other plans to convert more than the shared sites at Wintersville and Bridgeport into Plus stores. Another Plus store is scheduled to open next year, said Godfrey. He would not comment on whether that would be a store conversion or a newly constructed site.

The decision to develop its own type of hypermarket actually arose from the poor performance at single pairs of neighboring Harts and Big Bear stores in Lebanon, Ohio, according to Godfrey.

After taking several approaches to solving the poor sales performance of the stores, the company decided to see what would happen if the two were joined and had a common bank of cash registers. Operating under the name Savings Mart, the "new" store became a success. Savings Mart will officially become a Big Bear Plus sometime next month.

Alert Cashier Stymies Fraud Ring

(Continued from page 3)
cion because they were cashing four and five at a time.

In the Portland case, police on May 11 arrested Alfred McVay, 49, of Portland, a printer for a chain of printing shops called Print Right, and charged him with forgery, said Dave Mishke, a Portland police fraud detective.

McVay admitted cashing the gift certificates but denied printing them, Mishke said. He claimed that he found them in a downtown garbage can, the detective said.

When police took McVay's arrest mug shot, he was wearing a T-shirt advertising Print Right.

On another security front, Fred Meyer plans late this summer to start giving all prospective employees written psychological tests, so-called "honesty tests."

Fred Meyer, which operates 91 large stores, plus 10 smaller specialty stores, has given verbal agreement to use the pre-employment screening test from Orion Systems, Tulsa, Okla., Boley said. In addition, the chain has been testing an honesty test from American Testcor, Portland, and may use both, he said.

Fred Meyer has about 17,000 employees , including full- and part-time workers.

Moreover, Fred Meyer is testing in Salt Lake City and Portland another Orion written test it calls CLUE (Case Lead Under Evaluation).

Orion has developed the test in expectations it will replace the now-banned lie detector test in investigating retail thefts. Several years ago, Fred Meyer occasionally used lie detector tests, but not in recent years, Boley said.

As well as questions about attitudes of would-be employees regarding theft and honesty, the Orion test also is designed to determine attitudes about work and supervisory potential and views on drug and alcohol use, said Laurie Dwyer, national accounts manager.

Accordingly, Orion prefers the term "pre-employment survey" over "honesty test," she said.

Instead of yes or no answers, the test asks job applicants to rate on a scale of 1 to 10 whether they totally agree or totally disagree with statements such as:

- "A person who steals should be exposed in public,"
- "If a person is caught stealing from a company, in some instances, he should be given another chance."

Orion claims that such questions succeed 95 percent of the time in identifying bad candidates. Depending on volume, the cost for the test ranges from $6 to $9.

Orion promotional brochures list Wal-Mart, Sam's Harts and Hills as among the discounters using the company's pre-employment test.

Before agreeing to go with Orion, one of several major competitors in honesty tests, Fred Meyer checked with other users and found its test has a good reputation, Boley said.

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Vol. 27, No. 14 July 4, 1988

Brokers Want To Give Regional Marketing Support To Retailers & Manufacturers

Grocery product buyers for nonfood chains often rely on brokers to obtain product and information from grocery product manufacturers.

Now a new survey suggests that brokers, who traditionally have performed primarily as manufacturer sales representatives, will have a broader role to play in helping manufacturers better service their retail and consumer customers.

According to the survey, which was recently sponsored by the National Food Brokers Association, many brokers today are expanding into regional marketing programs that are designed to improve the retail sell throughs of the brands and products they broker.

The survey revealed that 81% of all manufacturers and 92% of all brokers believe that brokers should be involved in the regional marketing of their client's products.

The survey also showed that currently 81% of all brokers say they are involved in regional marketing of dry groceries while 22% are involved in the regional marketing of non-food groceries like pet foods and paper supplies. 24% of the brokers also said they are involved in the regional marketing of household cleaners.

The above chart gives an example of how much more involved today's brokers are becoming in regional marketing.

Marketing Services Added by Brokers in Last Two Years

Services	% of Brokers who added this service in the past two years
Increased retail coverage	76%
Regional marketing advice to manufacturers	75
Developing local trade promotions	72
Computer reporting systems	71
Event marketing	68
Computer order/entry systems	64
Market research/analysis	50
Computerized planograms	5
Other	15

Source: National Food Brokers Association

Consumers Sweet Tooth Keeps Them Hooked On Candy

What makes candy such a profitable category in today's retail marketplace.

Well, it seems to be one of those things that consumers just can't do without. According to the latest statistics, 90% of all U.S. households buy candy.

The frequency of purchases breaks down this way:

- **9% of all adults buy candy daily**
- **56% buy it "at least" once a week.**
- **31% buy it less than once a week, but at least once a month.**
- **And 13% buy it less than once a month.**

Source: Opinion Research Corporation

m&m's
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Nestle
Chocolate with Almonds

65% Of All Teens Drink One Soft Drink A Day Most Tell Their Parents The Brand To Buy

Teenagers are big spenders in todays affluent youth market. Not too surprisingly, one of their favorite purchases is soft drinks. However, have you ever wondered how many teenagers consume soft drinks and how often.

TEEN Magazine was recently curious about that so they did what their editors call a "soda quota" special market research survey.

Here are their findings from a survey that was done last Fall.

- 65% of all teenagers enjoy a soft drink "at least" once a day.
- 41% quench their thirst with a soft drink more than once a day.
- 36% prefer regular soft drinks; 26%, diet, and 36% have no preference.
- Of those that prefer regular soft drinks, 59% are weight watching.
- 69% of those who prefer regular soft drinks think they taste better.
- 53% say either they themselves or their parents bought the soft drinks. Of those that said their parents were the primary purchases, 82% said they specified the brands to buy.
- 94% say that soft drinks are served at teen parties; 57% said they throw two or more parties a year.
- 63% buy their soft drinks, at least sometimes, in vending machines. Only 6% said they bought soft drinks in drugstores, but 32% said they do buy them in convenience stores. 24% said they also buy soft drinks in grocery stores. Discount stores were included in the survey in the category of other.

TEEN based its findings on 475 completed questionnaires. The average age of the respondents was 15.7 years.

Ad Watch: How Drug Chains Are Promoting Foods

Starting with this issue, Fm is launching a regular ad tracking feature on promotional groceries.

The charts in this section of FM are designed to help our retail readers quickly identify some of the current trends in promoting groceries. In later issues, we hope to be able to include discount and food chains in our ad tracking reports.

We recommend that you use these charts as a tool for measuring and evaluating your current advertising strategies relative to the national market.

At a glance, you should be able to see if your own ad programs include the most frequently advertised brands within the food category.

You should also be able to identify categories where the pricing competition is particularly intense, and that will give you the option of deciding whether you want to "bang heads" with other chains on these categories, or back away from advertising them until the pricing competition eases off.

Comparison of Chain Drug Store Ad Prices For Food Products*

Brand	Size	Chain	Ad Price	Market
Coca Cola	2 liter	Dart Drug	99¢	DC
Coca Cola	2 liter	Rite Aid	$1.15	Pa.
Coca Cola	6 pack	Super D	$1.59	Tenn.
Coca Cola	6 pack	Rite Aid	$1.75	Pa.
Frito Lay	7 oz. chips	Pic N Save	79¢	N. Fla.
Frito Lay	7 oz. chips	Medic Discount	89¢	Ohio
Geisha	6.5 oz. lgt. tuna	Osco	2/99¢	LV
Geisha	6.5 oz. lgt. chunk tuna	Walgreen's	2/$1	Ill.
Nabisco	18 oz. Chips Ahoy	Pay Less	$1.99	Ca./Ore.
Nabisco	18 oz. Chips Ahoy	Bud's	$1.89	DC
Pepsi	2 liter	People's	99¢	DC/Ind.
Pepsi	2 liter	SupeRx	99¢	Ohio
Pepsi	6 pack	Walgreen's	$1.49	Ill.
Pepsi	6 pack	Longs	$1.69	Ca.
Planters	Cheez Balls	Walgreen's	79¢	Ill.
Planters	Cheez Balls	People's	89¢	DC

+Ad Tracking for the months of September and October 1987
Source: Vereen & Associates
*Print ads only

Chain Drug Stores: Most Frequently Advertised Food Brands

Brands	Category	% of all Food Ads**
Pepsi Cola	Soda	4.1%
Coca Cola	Soda	3.2
Frito Lay	Potatoe Chips	2.6
Nabisco	Cookies/Crackers	2.6
Geisha	Canned Fish/Canned Foods	1.1
Planters	Chips Snacks	1.1
Orville Redenbacher	Popcorn	0.8
Total as a % of all Food Ads		15.5

+Ad Tracking for the months of September and October 1987
Source: Vereen & Associates
**Print ads only & does not reflect size of feature ads

Chain Drug Stores: Most Frequently Advertised Food Categories

Product Category	% of total food ad space in chain drug print ads
Soda	8.6%
Cookies	3.7
Potatoe Chips	3.7
Corn Chips/Cheese Balls/Pretzels, etc.	2.5
Fruit Drinks/Juices	1.9
Popcorn	1.9
Ice Cream/Sherbet	1.8
Candy	1.7
Canned Fruit	1.7
Crackers	1.4
Canned Fish	1.3
Total as a % of all Food Ads	30.2

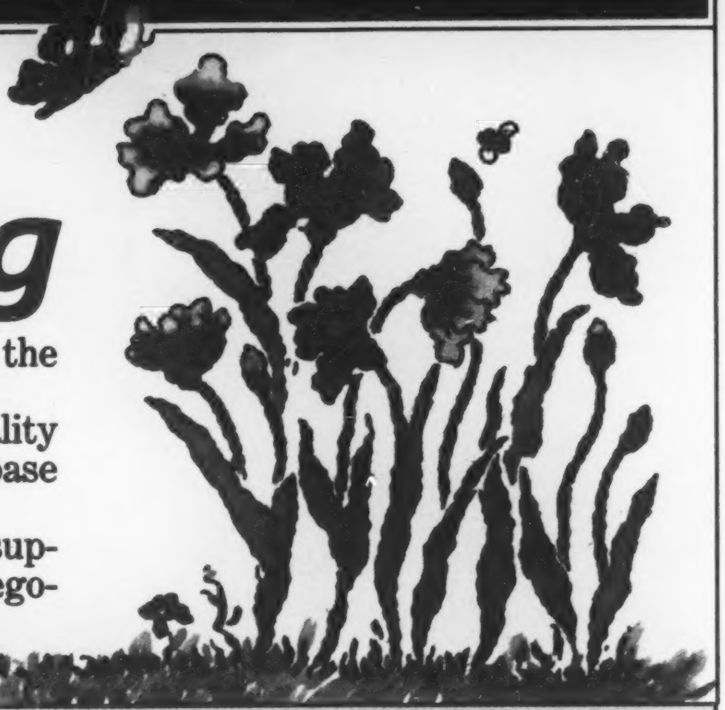
+Ad Tracking for the months of September and October 1987
Source: Vereen & Associates

The information in this survey is based on an ad tracking service developed by Vereen & Associates, Indianapolis.

Vereen covers 100% ad activity in 40 drug store product categories.

The service now monitors the print ads of the industry's 30 highest volume drug chains.

Best Selling Categories of Spring



The chart below lists the best selling categories in food stores for the months of March, April and May.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in May, 1986.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

Foods and Groceries: Best Sellers of Spring
(Average three year index ranking)

March

Foods	Index Ranking
Packaged candy covered non-chocolates	222
Packaged jellies	163
Tartar sauce	143
Diet desserts	141
Canned salmon	138
Packaged solid chocolates	137
Fruit rolls & bars	133
Dried Prunes	126
Canned hams/meats	126
Diet canned fruit	124
Packaged other chocolates	124
Canned peaches	117
Canned beets	117
Cereal meal bars	116
Gelatin desserts	116
Diet jams/jellies	116
Dried apricots	116
Honey	116
Canned spinach	115
Pizza products	114
Breading/batter mix	113
Diet canned vegetables	113
Nonfoods	
Car care products	124

April

Foods	Index Ranking
Soft drink mixes	198
Iced tea mixes	153
Instant tea	153
Barbecue sauce	150
Freezer bars	149
Diet desserts	128
Canned apricots	120
Canned pears	119
Diet canned fruit	118
Canned peaches	117
Fruit rolls/bars	117
Diet canned fruit	117
Dry topping mixes	117
Dried prunes	116
Canned pineapple	112
Canned spinach	112
Diet jams, jellies spreads	111
Prepared mustards	111
Gelatin desserts	110
Grape juice	110
Nonfoods	
Insecticides	225
Insect repellents	213
Charcoal lighters	160
Car care products	151
Charcoal	143
Window cleaners	115
Furniture care	111

May

Foods	Index Ranking
Freezer bars	237
Barbecue sauce	191
Relishes	173
Fruit pectin	171
Iced tea mix	164
Instant tea	159
Canned salads	158
Pork & beans	150
Soft drink mix	150
Meat sauce	131
Mustard	128
Pickles	125
Lo-cal salad dressings	123
Pourable salad dressings	123
Potato chips	121
Diet desserts	113
Juice & Juice concentrates	113
Non-chocolates	112
Canned sausages/franks	112
Nonfoods	
Charcoal	212
Charcoal lighters	210
Insect repellents	206
Insecticides	173
Car care products	145
Paper & plastic plates	140
Plastic flatware	138
Paper/plastic cups	123
Window cleaners	118
Motor oil & car additives	115
Paper napkins	110

Source: Sami Seasonality Study

Warehouse club stores appeal to businessmen, professionals and off the street consumers.

Membership Warehouse Club Sales Soaring

Sales for membership clubs jumped 31% to $10.7 billion in 1987. Top 12 chains now account for 95% of total industry sales.

The wholesale/warehouse club industry continued to show dramatic growth in 1987.

According to the Fm's sister publication, *Discount Store News*, sales for the industry rose an estimated 31% in 1987 to $10.7 billion.

About 95% of the industry's volume is generated by the nation's dozen largest warehouse club chains, led by San Diego-based Price Club which has a 32% share of all major wholesale club chain sales.

The Top 12 chains, *Discount Store News* also estimates, now operate a total of 273 units (some wholesale club operators object to the word stores because their units perform a cash and carry wholesale service). Altogether, their unit count is up 54% over 1986.

For 1988, *Discount Store News* is estimating that the Top 12 chains will open another 60 units, for a store universe growth rate of 22%.

If the industry achieves its growth plans, and it is likely that it will, then *DSN* and *Fm* are estimating that dollar sales for all chain Membership Clubs will top $13 billion in 1988, and sales for the industry may exceed $14 billion.

Membership Clubs: The customer base and the mix

A hybrid that is partly a cash and carry wholesale operation and partly a super sized retail store, the typical warehouse club unit

Membership Warehouse Clubs: Sales and Unit Growth
(1983 through 1990)

	Sales (billions)	Units
1983	$ 1.0	36
1984	$ 2.4	79
1985	$ 4.5	137
1986	$ 8.2	228
1987	$10.7E	325^{e}
1988	$14.2P	400^{p}
1989	$17.8P	505^{p}
1990	$21.0P	600^{p}

^{e}means estimated. ^{p}means Projected
Source: *Discount Store News* Research

sports a mix that includes edible- and non-edible groceries, health and beauty aids, apparel and other softwear, and a variety of hard line items ranging from televisions and stereos through tires and such gadgets as electronic garage door openers.

The customer base is predominately small business with off-the-street consumers usually making up about 30% of a typical wholesale club's customer mix.

Sometimes, however, the customer mix can be more in the vicinity of 50% small businesses buying on a cash and carry basis and 50% off-the-street customers buying case loads of low- to mid-ticket items and singles of high-ticket items like televisions.

Margins average about 10%

Mark-ups in a typical Warehouse Club are typically low to generate turns. Most Clubs say they charge wholesale prices plus a small mark-up of approximately 5%. Profit margins generally average about 10% overall.

Most Clubs also charge members a fee to join as well as an annual fee to remain a member. Most Clubs usually insist on cash payments rather than checks or credit cards.

The typical club also has a mix of about 3,500 to 4,000 sku's and generally turns its inventory between 12 and 20 times a year.

Who's Who In Membership Clubs

The leading chain in the segment is still Price Company, whose founder Sol Price opened the first membership club in San Diego, California back in 1976.

However Sam Walton who founded the Wal-Mart chain is fast moving up from second place and it looks like his Sam's Wholesale Clubs, based in Bentonville, Ark., may overtake the Price Clubs for the number one spot either later this year or sometime in 1989.

In 1987, Price Club generated approximately $3.2 billion in sales, up 25% over last year. Their unit count rose from 27 to 37 and they are planning to end 1988 with 41 units.

Sam's Wholesale Clubs now numbers over 84 units, an increase of 71% over last year. Walton says his chain will probably end the year with about 102 units.

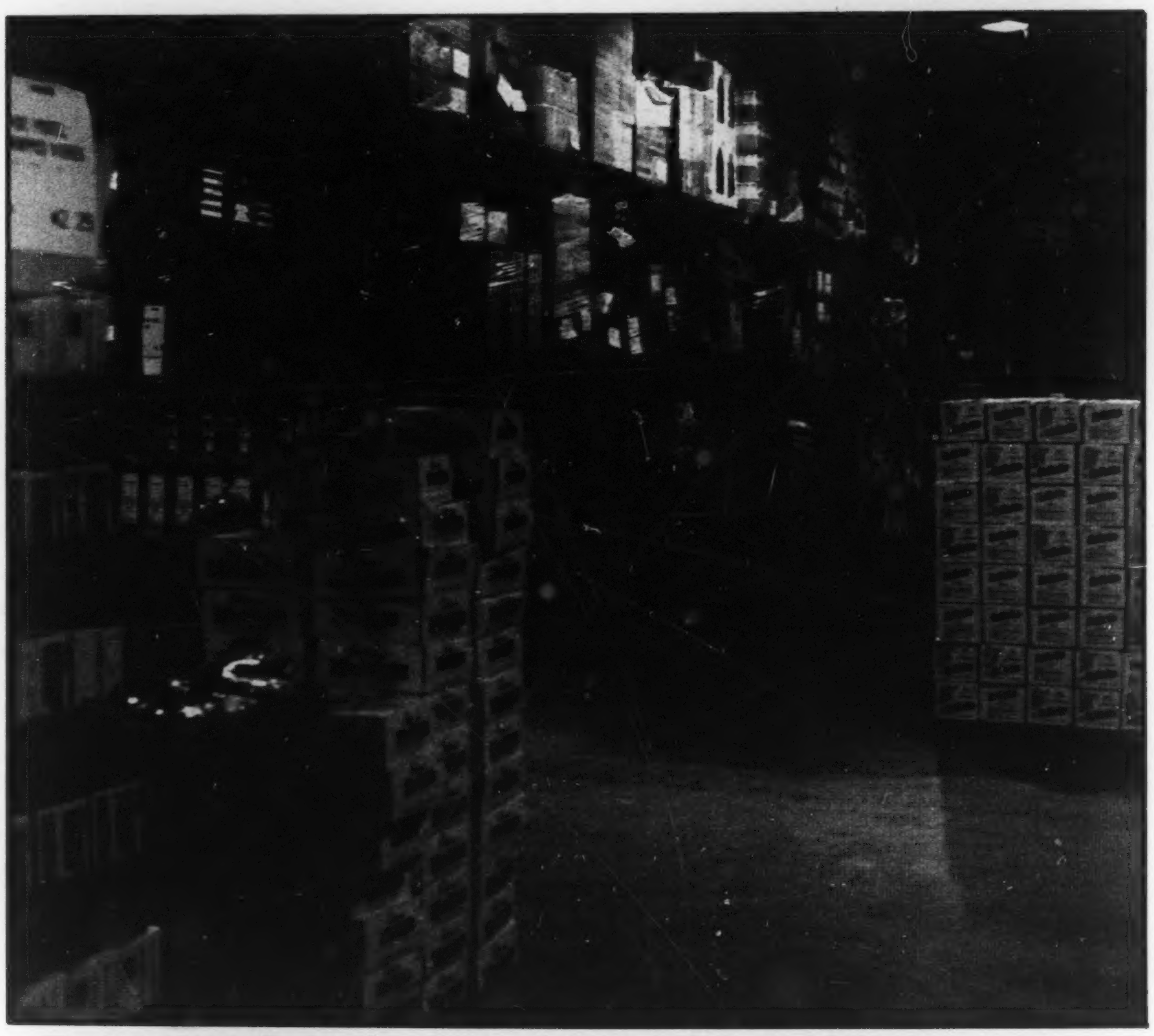
In 1987, Sam's Wholesale Clubs generated $2.67 billion in sales and had a market share of 26% among the Top 12 chains. Their sales were up 59% over last year.

Costco, based in Seattle, Wash., is in third place with a 13% share of all chain sales. Their 1987 sales were up 83% to $1.37 billion, while their unit count was up 95% to 43 units. They plan to end 1988 with 55 units.

Colorado-based PACE is in fourth place with sales of $939 million and a share of 9%. Their sales were up 58% in 1987, and they now have 33 units compared to the 25 they had last year at this time. They plan to open another three units before the end of 1988.

Massachusetts-based B.J.'s is now in fifth place with estimated sales of $575 million, up about 63% from 1986. They now have about a 6% share with just 19 units, up from 15 in 1986. Their management plans another four units for 1988.

Makro, Cincinnati, Ohio moves up from seventh to sixth place this year. They have a 3% share with four stores.



The interiors of most warehouse club stores are stark. Merchandise is usually displayed on pallets, in cut cases or on warehouse shelving.

Makro didn't open any new stores in 1987, and their sales were relatively flat, inching up about 7% to an estimated $310 million, according to *Discount Store News*.

They do plan three more stores for 1988, however.

Price Savers of Salt Lake City opened six units in 1987 and generated sales growth of 72%. They're nearly tied for seventh place with Makro, according to *Discount Store News'* estimates, and they also have a 3% share of sales.

In 1987, *DSN* estimated their total sales at $310 billion. They plan a nother six stores for 1988.

The Wholesale Club in Indianapolis is also close to a tie for seventh place. With four new stores opened in 1987, they generated sales of nearly $272 million, up 72% from 1986. (See our Winter *Fm* issue for a profile of The Wholesale Club chain.)

In tenth place among the Top 12 is Illinois-based Warehouse Club. They opened two units in 1987 for a total of 12 and have no more units planned for 1988. Their 1987 sales were up 45% to $228 million.

Texas-based American Wholesale with four stores doubled its sales in 1987 to $100 million. They only had two stores in 1986 and they plan to have six altogether by the end of 1988.

Idaho-based Club Wholesale is in twelth place with an estimated $70 million in 1987 sales. They opened two stores in 1987 for a total of six and plan two more for 1988.

Altogether, these 12 chains generated about $10.2 billion in sales in 1987 from a universe of 273 stores.

Discount Store News is estimating that by 1990, there will be about 600 units in this industry and sales will exceed $21 billion.

Who's Who In Membership Warehouse Clubs
(Top 12 chains by dollar volume: millions)

Chain/Company HQ	1987 sales	% chng vs '86	Total Units	% chng vs '86
1. Price Club San Diego (Price Company)	$3.236	25%	37	37%
2. Sam's Wholesale Club Bentonville, Ark. (Wal-Mart)	$2.670	59	84	71
3. Costco Seattle, Wash.	$1.370	83	43	95
4. PACE Denver, Col.	$ 939	58	33	32
5. B.J.'s Boston, Mass. Wholesale Club (Zayre Corp.)	$ 575+	64	19	27
6. Makro Cincinnati, Oh.	$ 310+	7	4	0
7. Price Savers Cincinnati, Oh. (Kroger)	$ 300+	72	12	100
8. The Wholesale Club Indiannapolis	$ 272	72	15	369
9. Warehouse Club Niles, Ill.	$ 228	45	12	20
10. Buyers Club Englewood, Colo.	$ 120+	50	5	33
11. American Wholesale Richardson, Tex.	$ 100+	100	4	100
12. Club Wholesale Medidian, Idaho	$ 70	75	6	77

+ *Discount Store News* estimates
Source: *Discount Store News* Survey and annual reports

K mart enters the fray

In February of 1988, K mart came into the wholesale club picture by acquiring a controlling interest in Makro. Makro currently has over a dozen units on the drawing board for next year, and K mart has said that it wants to have about 20 units by 1990, and that includes opening several new markets in the northeast and the upper midwest.

In an unrelated diversification, K mart is also in the process of developing a hypermarket. Wal-Mart, K mart's biggest competitor, currently operates two hypermarket prototypes: Super-Center and Hypermarket USA.

Groceries are an important category in hypermarket stores just as they are in wholesale/warehouse clubs, and K mart is said to have been attracted to Makro because 50% of their sales are in grocery categories. (See the Winter, 87 *Fm.)*

Wal-Mart, of course, is very close to becoming number one wholesale club operator with Sam's.

K mart says it wants to have 20 Makro units by 1990, but Wal-Mart already has 84 Sam's and it plans to have over 100 units before the end of this year.

Wal-Mart has already become the first wholesale chain to break the 100 unit (store) mark.

Marketing changes

In terms of positioning themselves to customers, the wholesale clubs still seem to be following two major thrusts: some chains are trying to beef up their wholesale businesses so they can back away from their retail customers who spend less per visit than wholesale customers. Meanwhile others, like Makro, are adding more service departments to enhance their appeal to retail consumers.

Makro, for example, is adding service bakeries and deli sections to its current clubs, and will include these departments in all new stores.

The Wholesale Club, on the other hand, is looking for ways to provide more service to the small business customer or to the professional doctor, dentist or veterinarian who needs to buy office supplies and other stables in relatively large quantities.

Their management tells *Fm* that they believe volume is the key to a successful wholesale club operation and they say they do not want to tie up their registers with a $20 or $40 purchase when a small business customer will spend $400 to $700 in one visit.

Price Club, too, is trying to enhance its image as a business-oriented club. Price now considers individual professionals and contractors as small businesses, and as such, they are entitled to their own membership cards rather than group memberships.

Price is also, however, moving to expand its mix into categories that will appeal to off-the-street consumers. Right now, they have optical centers in 11 stores and tests of a gas station and pharmacy are underway.

Sam's is also trying to up the volume in its stores including the 18 Super Savers it purchased in mid 1987. The typical Sam's averages about $50 million a year in sales, far less than the $100 million that the typical Price Club can generate.

Costco is also going after more off-street traffic by rolling out an expanded offering of fresh meats and produce. Last year, Costco also expanded pharmacies and began installing optical centers.

Some chains are also experimenting with credit cards. Buyers Club now accepts bank cards in what is an obvious move to appeal to retail customers, and PACE is testing its own credit card in some markets. Price Savers also has a company credit card.

It's clear that many wholesale club operators think they can get the dollar volume they need by being both a service wholesaler and a service-oriented retailer.

Grocery Sales up 51% in Warehouse Clubs Last Year

Growth is the result of refinements in the product mix and of a stronger marketing directed at small businesses and food service operators

Groceries account for approximately 50% of all warehouse club sales.

The wholesale/warehouse club industry did a booming business in grocery products in 1987, and from all indications 1988 is going to continue to be strong.

According to Fm estimates, based on an analysis done by Malcolm Knapp, Inc., in New York, the wholesale club industry generated a 51% increase in grocery sales in 1987 to $5.8 billion.

With industry sales averaging about $10.7 billion last year, grocery products garnered a 54% share of all wholesale club store sales.

Fm is estimating a more conservative increase for 1988, but our projections indicate that grocery sales will still be up a dramatic 24% to approximately $7.2 billion. With total industry sales projected at $14.2 billion for 1988, groceries next year should attain a 51% share of total wholesale club sales.

Growth comes from expanding the mix

Much of the growth in this industry is coming from new store openings. The top 12 chains that do 95% of the total industry volume went from 273 stores in 1986 to 332 in 1987, an increase of 54%.

But club operators also tell Fm that their same store growth is coming from an improved product mix, from enhanced services for off-the-street customers and from strong marketing programs geared to attract food service operators and small businesses that resell groceries.

Some chains like Costco in Seattle and Makro, which is now owned by K mart in Michigan, are adding service departments like fresh meat, fresh seafood, produce and bakeries to their mix in an effort to enhance their appeal to both consumers and restaurant operators; others like The Wholesale Club in Indianapolis and B.J.'s, which is owned by Zayre's in Boston, are refining their mix, adding more of the top 20 items that do 80% of the business, and adding previously overlooked categories like portion pack condiments for small restaurants or packages of penny and nickle candies that both restaurants and Mom and Pop operators like to use as "change makers."

Many chains are also using direct mailers and telemarketing companies to seek out and inform neighborhood small businesses about their services.

One buyer said his company was concentrating on letting the local variety store operators, and the lo-

Perishables are an important part of the average warehouse club grocery mix. Customers buy for their personal use as well as resale.

Grocery Sale Trends in Membership Warehouse Club Stores

(retail sales millions)

Category segment	1982	1985	1986	1987	1988
Packaged Groceries (excluding snacks)	$122	$1,526	$2,802	$4,203	$5,181
Packaged					
Alcohol	$ 13	$ 174	$ 327	$ 490	$ 603
Paper Goods	$ 11	$ 153	$ 288	$ 444	$ 564
Soaps/Household					
Cleaners	$ 12	$ 157	$ 296	$ 449	$ 560
Pet Foods	$ 6	$ 80	$ 154	$ 239	$ 304
Total Sales	$164	$2,090	$3,867	$5,825	$7,212

Source: Malcolm M. Knapp, Inc., New York

cal office managers know that they could buy more than just stationary or cleaning aids in his stores.

"We want them to see we can also supply them with candy or soft drinks or coffee or sugar," he said. "Maybe, we have a medical complex customer buying cleaning supplies or stationary from us right now. Well, we want them to realize that if they make coffee for their customers, then they can buy their supplies here with us as well as the coffee machines and the filters.

"If a variety store is buying cigarettes and soft drinks from us now, then we want them to buy their candy and their snacks here, too. If a beautician is buying cleaning supplies from us, then we want her to think of coffee and snack supplies as well, and if her shop has a guard dog, then we want her to buy her dog food here. That's how we build the volume."

Most wholesale club executives say they can't easily classify their grocery shopper. He or she, they say, buys groceries to meet a variety of needs, ranging from purely business to purely personal.

"I often watch the customers checking out of my warehouse stores," says Thomas Geisse, Marketing VP for the $271 million The Wholesale Club chain, "and I wonder what they're going to do with the different things they're buying.

"It's easy to spot the consumer who is just buying groceries for her family, or the gas station operator who's buying a box of doughnuts to snack on while he puts in the batteries he's just bought or the tires, but when you see someone who may have a flatbed filled with chemical supplies, clothes, appliances and cases of soft drinks, you really can't be sure what their end use is."

Among the 12 chains that now do 95% of all wholesale club volume, the Price Club is considered the undisputed leader at maximizing sales. Their 37 stores average about $100 million a year in sales, and although their mix is relatively small averaging about 3,500 sku's, it is carefully tailored to feature what the 60% of its members who are wholesale customers seem to want.

The Price Club boasts turns of between 18 and 25 a year, which is more than double what most of the competition can achieve.

"The secret," says a source, "is to carry what's most in demand. The large institutional size packs like the number ten size cans of fruits and vegetables, the 64-oz. cans of sauce and ketsup, the 50-lb. bags of dog food are very important to the wholesale customer.

"So are multiple packs of items like tuna and frozen meats.

Operators also say that brand name merchandise is important to them, particularly because selling brands at wholesale prices helps them establish their market identity and, as one source said, "it helps persuade our wholesale customers that they can rely on us for quality as well as for service."

Groceries have been generating about 50% of wholesale club sales even since the industry was born about six years ago. Most companies think groceries will continue to account for about half of the business for many years to come.

"It's the one category that people have to buy daily," said one buyer. "You buy it. You use it. You come back for more. In a way, it's the heart of our business, because it brings in the traffic that exposes our customers to all the other variety we have to offer. And when we take a 3% or 5% margin on a grocery or a soft drink, it sends a very good message to our consumers.

Nonfood chains are giving more space to household cleaning items. Turns are excellent.

Cleaning Supply Sales Up In NonFood

Most chains buy their cleaners on deal. On promotion, margins average 20% and everyday, they average 40% in this profitable category.

Kmart used to be the most aggressive nonfood promoter of household cleaning products as traffic builders, but now everyone in nonfood is featuring cleaners, from small independent drug stores to the Sam's Wholesale Clubs that average $50 million a year in sales.

According to Kline & Co., a marketing consultant firm based in Fairfield, N.J., household product sales are down in food stores, by 2% to 5% depending on the category, but they are up significantly in nonfood outlets.

Nonfood chains are promoting the category more often, they are increasing the number of household cleaning skus in their private label lines, they are building more ends featuring cleaners, and chains with large stores are putting them out on floor stacks and pallets.

The fact that the category is down overall in food stores, say buyers and nonfood brokers, is not a problem for the nonfood industry. "You are looking at a multibillion category," says broker Rick Bloom, who manages the Crofton, Md., branch of Watt & Company, "and there are plenty of people buying cleaners."

"It's a very attractive category with women shoppers. The nonfood stores are using cleaners both as a convenience department for their shoppers and as a traffic builder. And both ways, it's working well. With everyday margins of 40% to 55%, it's a very profitable regular department."

Buyers and brokers also say there is a lot of flexibility in the category in terms of what sells well. National brands like Tide, Clorox, Dawn and Wisk always do well, but so do some of the lesser brands like Real Pine, Bab-O and Purex.

"For some of the bigger brands like Tide and Clorox, there is a lot of price sensitivity," said a source for K mart. "These are items that most women buy one or two times a month, and they know the prices on these brands, so when we undercut the food stores by 20% or 30%, we generate a lot of traffic.

"On the other hand, women also buy a lot of cleaners on price alone. Bab-O is not Comet, but if we feature it at five 14-oz. cans for $1 as we often do, we can turn a lot of product. And because we're only buying on promotion, we can even make some money."

Some of the lesser known cleaners like a Murphy's Oil Soap also do very well in nonfood stores. Buyers say there is virtually no feature activity on a brand like Murphy's from the food stores, so they don't have to worry about banging heads when they feature it.

Drug chains, in particular, have been aggressively promoting Murphy's lately, and Art Silver, President of Silver Marketing in Berlin, N.J., says that it has been "blowing out the doors."

New Era for Private Label Cleaners

Nonfood chains are beginning to upgrade their private label cleaning products.

Sources say that chains like Peoples, Rite Aid, K mart, etc., are planning to upgrade their formulations as well as their packaging so their own store brands can match the national brands on both quality and presentation.

At least one major food chain, Weiss Supermarkets in the northeast, has already taken this step, and a source says their sales of private label cleaners are showing stronger growth.

"Right now," says one source, "a chain may have a private label dishwashing detergent and typically, that formula will contain between 25% and 34% solids. Well a national brand like Dawn contains about 40% solids. That means the national brand is able to wash more dishes because the higher the solids level, the more dishes you can wash.

"The nonfood chains want their store brands to stand for quality so you're seeing a trend to upgrade their formulations, and at the same time, the chains are working on upgrading their packaging.

Some private label manufacturers in fact are now doing cross labeling for their customers just as the national brand manufacturers do. A few companies will cross label a store brand so the retailer can put a 25 cents off coupon, good toward a purchase of maybe their private label fabric softener, on a bottle of their private label dish detergent.

Other chains are talking to manufacturers about developing trial sizes, and in some food stores, you're soon going to be able to see knock off labels that read something like this: "If You Like Dawn, Try Me."

One source said the trend marks the emergence of the private label industry into "the era of marketing."

Frequently Promoted Cleaning Products in Nonfood Stores

Product	Popular Promotional Price
64 oz Wisk	2 for $5
14 oz Bab-O Cleanser	5 for $1
22 oz Joy	$1
22 oz Dawn	$1
128 oz Purex	$1
12 oz Shout	$1
3 pack Ty-d-Bowl	$2
16 oz Woolite	2 for $3
1.7 oz Vanish Drop-ins	3 for $2.25
24 oz Vanish	$1
147 oz Purex laundry soap	$3.37
60 oz Cascade	$1.89
28 oz Parsons ammonia	42 cents
14 oz Carpet fresh	$1.44
20 oz Magic Sizing	77 cents
Package of 8 Handi Wipes	97 cents
Package of 5 Stretch 'n Dust	97 cents

Source: *Fm* Research

"When the nonfood chains promote Murphy's," he said, "they feature the 16-oz. size at 99 cents to $1.09. Food stores generally charge about $1.29 for it every day. The key to turning the household chemicals in nonfood is pricing it considerably lower than the food stores. The chains are finding that when they go out with something like Murphy's at the right price, it blows out the doors."

Murphy's Oil Soap is showing a 30% increase in my nonfood sales," says Burt Houseworth, President of Key Stone Brokers in Oradell, New Jersey. "But, in fact, the entire category is showing growth in the mass market stores. Every major chain is promoting cleaners, and there's more couponing and more multiple promotions going on than I ever remember seeing."

Drug Emporium stores in Philadelphia have done so well with the Murphy's Oil Soap on promotion that they have now added four skus to their everyday planogram.

One source says the average store is generating about $400 a month with that item. Because a lot of the product is bought on deal, the source says the margins are averaging about 18%.

Drug Emporium also does a fantastic business with detergents, dish washing liquids, bleach, fabric softeners and furniture/appliance cleaners. Many of their stores give the category about 36 ft of space, plus ends, case stacks and floor stacks.

"We get a lot of traffic in our stores and the women recognize that our prices are below the market so we get great turns. We also buy a lot on deals so we get good margins. Overall, cleaners are a very profitable category for us," says Bob Lyons who manages the

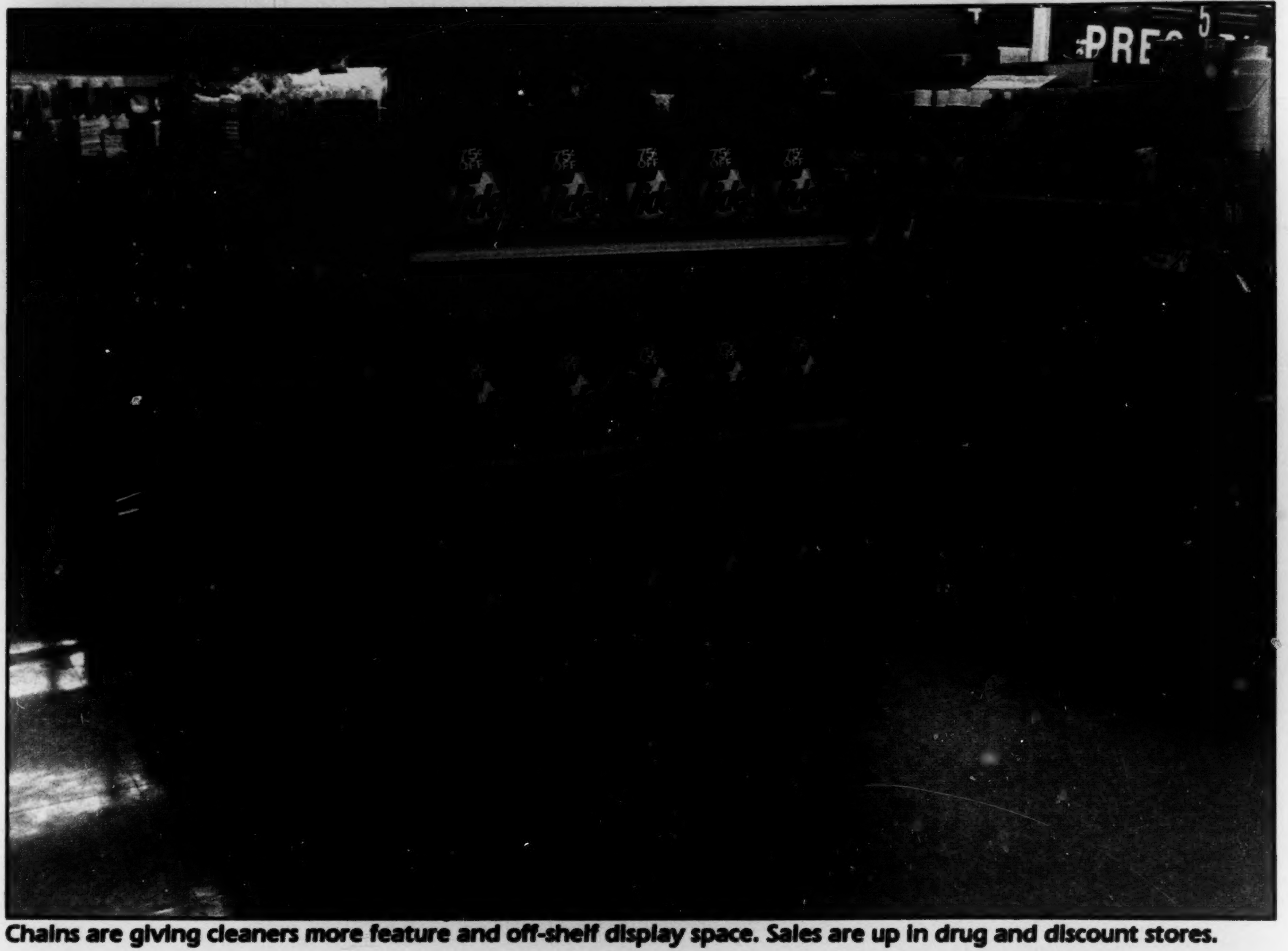
Growth In Household Cleaning Product Sale

(billions of dollars at wholesale)

Category	1986	1987	% chng
Soaps & Detergents	$4.7	$4.9	4%
Laundry Additives	$1.6	$1.7	6%
Specialty Cleaners*	$1.3	$1.4	8%
Deodorizes & Disinfectants	.570	.580	2%
Polishes & Waxes	.340	.330	(3%)
Total Cleaners	$8.9	$8.5	5%

*Includes ammonias, anti-static products, bathroom cleaners, glass cleaners, etc.

Source: Kline & Co., Fairfield, N.J.



Chains are giving cleaners more feature and off-shelf display space. Sales are up in drug and discount stores.

northeast division of Drug Emporium.

Most drugstores, give the department less space, however. The typical range is from about 12 to 32 ft. Many discount stores give the category as much as 36 to 48 ft., plus end caps and floor stacks. On promotion, discount stores are generally more aggressive with price than drug stores.

"We promote many items as close to cost as possible," said the manager of a Caldor in New Jersey.

"We want to make a statement to our consumers that we stand for value, so it makes sense to make a price statement with something as visible as a household cleaner."

Dart Drug in the Washington, D.C. market has a similar philosophy. Their stores promote household cleaners almost on an everyday basis, and they have given it as much as 50 to 60 running ft. in their stores.

One manager says, "we buy as much as we can of it on promotion and then we just stack it out."

Many chains also have a wide selection of household cleaners available under their own store labels.

K mart, in fact, has just created its own private label version of a Murphy's Oil Soap. "It sold so well for us," said one source, "that we realized we could turn it often enough to make it pay as a private label."

K mart often promotes its private label cleaners in its ads. One recent roto featured the K mart oil soap at a 44% savings, 32 oz. for $1.27 versus the regular price of $2.27. They've also advertised their own 19-oz. spray disinfectant for $1.42, for what the ad said was a "50% savings."

Their dollar day sale circulars almost always include their own private label cleaners. Last spring, the ad featured their own 20-oz. Bathroom Cleaner for $1 as

Household Cleaners: Market Share Changes

(Change in sales share 1987 vs 1986)

Segment	Food's Current share	Food stores	Nonfood stores
Soaps & Detergents	80% Plus	(3%)	3%
Laundry Additives	80% Plus	(2%)	1
Specialty Cleaners*	70% Plus	(3%)	2
Deodorizes & Disinfectants	70% Plus	0	0
Polishes & Waxes	75% Plus	(5%)	5%

*Includes ammonias, anti-static products, bathroom cleaners, glass cleaners, etc.

Source: Kline & Co., Fairfield, N.J.

well as their own Fabric Softener in sheets or concentrate for $1.

Many drug chains also have their own private label cleaners, especially on commodity items like bleaches, ammonias and window cleaners. A source for Pennsylvania-based Rite Aid said they got into it as a way of "offering value" to their consumers.

"It also gives us a chance to feature three of four private label cleaners on one end," said one Rite Aid manager in Pennsylvania.

A Peoples source in Alexandria, Va., where the chain is headquartered, said that having cleaners in the line "rounded out" their private label program and gave them a chance to do a whole Sunday circular on private label.

"In those ads, we feature all kinds of consumables," he said, "everything from cannister snacks to dish detergents to fabric softeners."

Many nonfood chains also have a policy of only featuring the national brands when they are on deal. The rest of the time they'll keep some of the nationals, like Tide, Clorox, Dawn, Wisk, etc., in their regular cleaning department but they won't give them off-shelf exposure.

A typical strategy is to put one or two facings of a Dawn or Dove next to one or two facings of their private label item. The private label is usually 20% to 30% less than the national brand so the chains can offer their customers a significant savings while still making margins of between 20% and 40%.

However when chains do buy cleaners on promotion, which most chains say they do between 90% and 95% of the time, they give them ample off-shelf exposure. "We do very well with cleaners," said one buyer. "When we buy on deal, we can be competitive with food stores and still take 18% to 20% margins. Everyday, we seldom make less than a 30% margin."

Other sources say they are attracted to cleaners because food stores are not promotionally active in this category as they are with certain foods like tuna and mayonnaise or with certain HBA items like toothpaste and shampoos.

"The food stores don't promote the cleaning category that much," says Jim Marx of Pankow Sales in Chicago. "Instead of cutting the price a lot, they depend on rebates or coupons to generate sales in this category."

The most aggressive nonfood promotions with cleaners are seasonal: back-to-school in the Fall is a popular event for cleaners and so are the January/February Dollar Day circulars.

"Nonfood chains also do a lot with multi-pricing in this category," says Marx. "Especially in Dollar Day ads, you'll see a lot of brands priced at 2 for $5 to get the higher sale."

Hot Trends In Cleaning Products

In the household products category, the hot buzz words in 1987 were "lemon fresh," "outdoor fresh," and convenience.

According to the Kline & Company in Fairfield, N.J., the hottest new products were those with the word "lemon" in their brand names and those with fragrances reminiscent of the outdoors.

Convenience was also very important to consumers in '87, and Kline says many of the most successful launches featured either some form of convenience in either the product or the package.

Many manufacturers brought out lemon scented household products last year, but the strongest sales came from the major brands such as Lemon Brillo, Lemon SOS, Lemon Fantastic, Lemon Cascade, Lemon Fresh Dash, and Lemon Comet.

In outdoor scents, Tide Clothsline Fresh Scent stood out and so did Sun Rinse Fresh Liquid Downey. Surf's Fresh Scent, introduced back in 1985, continued to do well. Mountain Spring Dawn is doing well and so is Downey's April Scented Dryer Sheets in test markets.

Colgate did very well with the introduction of the Fab One Shot Pouch which contains everything a woman needs to both wash & machine dry her clothes. Kimberly Clark is now testing a similar single dose product called Command and P& G is testing Bold Washer/Dryer packs. Cheer also has Power Punches in test and P& G is testing Tide Multi Action Sheets and Tide Redi Paks.

Carey Ahsler, a marketing consultant for Kline, says that lemon seems to be hot because so many people associate the scent with efficient cleaning. She says the outdoor scents are doing well because they make people think of the fresh outdoors.

Convenience is important because so many women work. "When a woman is home," Ahsler says, "she doesn't want to spend all her time cleaning, so she buys products that will let her take care of several tasks at once or products that are easier to use like a spray."

Growth Segments In Household Cleaners

Segment	'88 $ Sales (millions)*	% change '88 vs '87
Mildew Removers	$ 41.7	17.9%
Upholstery Cleaners	$ 6.2	9.7%
Fabric Bleach/Detergent Boosters	$305.5	8.8%
Rug Cleaners	$ 58.0	7.4%
Window Cleaners	$155.4	4.3%
Laundry Soil/Stain Removers	$139.0	4.1%
Sponges	$ 37.8	4.1%
Bowl Cleaners	$208.9	3.8%
Starches	$ 95.5	3.5%
Metal Polishes	$ 30.8	3.5%
Drain Cleaners	$ 99.3	2.8%
Heavy Duty Detergents	$330.1	2.7%
Dishwasher Detergents	$444.1	2.5%
Air Fresheners	$353.3	2.3%

*Retail Food store sales only

Source: Sami Dry Grocery Non-Food Category Trends

Some soft drink buyers for nonfood chains say their sales are up between 10% and 25% this year.

Soft Drink Sales Surge in Nonfood Stores

Emphasis is on promotions that feature sweepstake prizes and special consumer values. Retailers say they get better margins, plus opportunities for higher margin tie-in sales.

Soft drinks is one of the few multi-billion dollar categories that buyers say is still growing at a strong annual rate.

According to the trade magazine Beverage Industry, soft drink unit sales are up 5.5% over last year. However, many nonfood chain buyers say their soft drink sales are up two to three times the industry average.

The overall growth is partly due to increased per capita consumption of soft drinks, but it's also attributable to the fact that many nonfood chains are giving the category expanded space in their stores while some are also trying to give it better merchandising exposure. Most nonfood chains are also promoting soft drinks more frequently.

Soft Drink Consumption Sale Trends

(measured by cases: 24 8 oz cans to a case)

	1987	1986	% chng
Cases in billions	7.1	6.8	5.5%

Source: Beverage Industry Magazine

A source for K mart, which has a permanent soft drink department in about 25% of its stores, says soft drinks turn "incredibly fast." He said most stores can turn soft drinks once a week, even when the line is merchandised "off the main rectangular aisle and in one of our corners near the wall."

"It seems to be one of those things that the more people buy, the more they use," he said. "If we have a special feature price on a major brand, they stock up. Then they come right back in a week or so and stock up again."

For years soft drinks has been a sort of step child in the nonfood industry, tolerated by many chains because of its strengths as a traffic builder but looked down on as an imperfect category because its margins were comparatively low, even everyday.

However, now some chains are moving away from what one source described as a "margin mentality" and looking more at the dollar potential of individual categories.

"On promotion, we might go out at a 5% margin," said the beverage buyer for a southwest-based drug chain, "and when we do that, we're looking at a category with tremendous volume potential. We won't make a lot of money on it, but we'll generate penny profits and we'll get the traffic.

"Everyday, I'll make about a 20% margin, but it will keep turning for me. It's a good cash flow category. I don't have to wait two months to sell a piece."

Most chains say their best sellers are the leading brands, Coke, Pepsi, 7-Up and Dr. Pepper.

The best selling sizes are 2 liters, 6-packs and 12-packs.

Buyers say that two of the hottest new products introduced in the past year are Cherry 7-Up and Pepsi's Diet Mountain Dew.

However, although new products are important, the new launches are not as important for the nonfood chains as the established brands.

Non food chains are stressing value rather than price in their latest soft drink feature ads

One source said that one of the reasons there is more growth in this category now is because the nonfood chains, particularly the mass merchandisers, have started to play down price as their promotional focus.

Instead they are working with the soft drink vendors to develop customized promotions as well as promotions built around sweepstakes or tie-in sales with higher margin categories.

Coke, for example, did a Summer Sweepstakes promotion with K mart last year, that was, in K mart's words "a big success," and they are doing a second similar program this year called a Summer Sailaway Sweepstakes.

K mart featured the sweepstakes in this year's spring rotos. In a two-page spread of grocery items, the Coke feature was the only one that didn't mention price.

Instead it invited shoppers to "Come in and enter" the K mart/Coke sweepstakes. Consumers had a shot at winning one of 100 cruises for two to the Bahamas aboard a Carnival Cruise ship, plus over $1 million in K mart bonus gift certificates. K mart and Coke designed the contest so that there would be over 180,000 prize winners.

Soft Drink Share Tonnage Sales Trends
(by soft drink category segment)

Segment	1986	1987
Colas	68.8%	69.1%
Lemon Lime	11.3	10.6
Pepper	4.6	4.8
Juice added soft drinks	4.9	4.5
Root beer	2.6	3.0
Orange	2.4	2.2
Other	5.4	5.8

Source: Beverage Industry Magazine

Sweepstake promotions are easier on the retailer

Besides making it possible for K mart to set a higher margin because the ad doesn't stress price, this kind of feature program also makes it easier for the individual stores in different regions of the country to promote soft drinks.

It makes it possible for each store to work with the individual bottlers to promote that bottler's best selling size or pack for their separate markets.

"It eliminates all the hassles of trying to deal with hundreds of bottlers at once," says a K mart source, "plus we're not locked into any particular package. If we can get a better price on two liters in the northeast, then we'll feature that in displays in the northeast stores. If our best price in the midwest is on the six-packs, then that's what the mid-west stores will display."

Beverage Consumption Patterns

Category	8 oz drinks per person annually
Soft drinks	674
Water	659
Coffee	406
Beer	382
Milk	325
Juice	111
Powdered soft drinks	98
Bottled water	91

Source: Beverage manufacturers

Pepsi creates value with E.T. rebate promotion

Pepsi is also offering new promotions built around sweepstakes and special values. Later this fall and in early winter, Pepsi will launch a promotion built around a tie-in with the distributors of the soon to be released video of E.T.

Mass merchandise stores are now a major source of video purchases, and many drug chains have video centers as well. The Pepsi promotion will let a chain advertise Pepsi by stressing, not price, but the availability of a special $5 rebate that Pepsi is offering on the E.T. video purchase.

The event will break just in time for the holidays, and it will give consumers a chance to buy a $24.95 copy of E.T. for $19.95. Retailers who feature the promotion should be able to get a video sales, plus a soft drink sale.

Wal-Mart will test new locations for soft drinks

"Soft drinks are not just a food store item anymore," said a Wal-Mart manager. "We've sold them for years, but we don't think we're fully utilizing the category. There are other things we can do to make this category more profitable and we're going to do it."

Several sources also say that Wal-Mart is about to test new ways of merchandising soft drinks. Right now the chain primarily stocks soft drinks in its "wall of values" right beyond its cash registers.

Later this year, sources say that Wal-Mart will begin testing soft drinks in the snack category which is right across from its registers.

K mart is also testing various configurations and locations for soft drinks.

The attitude among buyers is that the category is great for growth, but that profits could be even higher with some merchandising and promotional refinements.

Healthy Fun Drinks Sell Well for Nonfood Stores

Soft drink sales are growing in nonfood stores, and so are sales of bottled waters, juices and juice enhanced bottled waters.

Photo by Ray Garland

Americans today are spending more time outdoors, and they're drinking more juices & bottled water.

Beverage sales in nonfood chains are growing at what buyers say is a steady 10% to 15% rate a year.

Soft drinks, which are used by about 95% of all households in America, are up significantly, buyers say, but they are also reporting dramatic growth in bottled water sales, juice sales and the sales of juice enhanced sparkling bottled waters. Asceptic packs of juices are also doing well throughout the country.

Tea is also selling well in many nonfood chains, and buyers say it seems to have become a year round rather than just a seasonal item. Several buyers said coffee is a good item to promote "when you can get the right price," but they add that it is more of a seasonal item and also a harder category to compete with because food chains price it so aggressively.

Juice & bottled water drinks are hot

Buyers tell Fm that soft drink sales are strong even when they are not being advertised, but buyers also say that one of their hottest new categories right now are healthy drinks: bottled waters, juices, and juice enhanced sparkling bottled waters.

In the last year, chains like Wal-Mart, K mart, Target, Venture, Longs, Walgreen's, K & B, Eckerd, Thrifty, Osco and the Sav On division of Osco, have all done promotions highlighting juices and juice enhanced drinks like Ocean Spray, Welch's, Dole, Motts, Seneca, Treetop, Sundance or Calistoga.

Many of these chains are also generating, what some buyers call "fantastic growth," from the bottled water segment, both with spring water brands like Poland Springs in the northeast and Oasis in Texas and with carbonated brands like plain Perrier and Perrier enhanced with essence of fruit like lime and lemon.

A number of nonfood chains now have bottled water sections in their regular beverage departments, and several are expanding these departments to include new types of drinks like Perrier's Calistoga Sparkling Juice and Stroh's Sundance Sparkling Juice, both of which were launched less than two years ago.

Both Sundance and Calistoga are appealing drinks by themselves, plus they make excellent substitute for alcoholic beverages, particularly the sweeter drinks like wine coolers.

Calistoga is still primarily a regional brand, available just on the West Coast, but Perrier has just launched another sparkling water/juice under its Poland Springs brand which is available in the northeast.

Sundance, however, is now in national distribution, and Stroh's is giving the brand strong support both in print and on national TV and radio. A company source says the brand's '88 sales could exceed $100 million, which would be very good for an item that wasn't even around two years ago.

Bottled Water Segment Share Trends

Segment	% share
Non Carbonated	77%
Carbonated	23%

Source: Sami Drug Grocery Food Category Trends

New additions to the beverage mix

So far, Wal-Mart has become the first major discount chain to stock Sundance on a permanent everyday basis. Management is also putting Sundance into its Sam's Wholesale Club stores in a special shrink wrapped four-pack case.

Longs on the West Coast now features Calistoga in many of its stores everyday as well as Perrier everyday. Some Eckerd stores in Texas have Calistoga as well as Perrier everyday, and Perrier is in everyday distribution in Peoples and Dart drug as well as in some Chicago and Florida Walgreen's.

The Price Club in San Diego, Calif., also stocks shrink-wrapped four-pack cases of both Calistoga and Sundance everyday, and so does Price Savers in Cincinnati. Sam's Wholesale Club also carries both brands, and there is a chance that Perrier may soon show up in Wal-Mart on an everyday basis. Discussions are underway.

Target and Venture are both promoting Sundance about three times a year and so is Longs Drug, Thrifty and Sav-on, all in California. Drug Emporium, a deep discount drug chain headquartered in Worthington, Ohio, is testing it for everyday distribution in several markets.

This spring, Venture promoted the Sundance four-pack at two for $4. Food stores generally retail the four-pack at between a $2.69 and $2.99 everyday price.

One source said Venture's opening order of about 3,000 cases sold through in a single week-end because of the price. "It was a great price," he said, "and the promotion worked fine as a traffic builder, but the stores made money on it too. We took between a 5% and 10% margin."

The food chains on the West Coast, where the brand and the category originated, give the category an average of about 30 linear ft. in their everyday bottled water department. On the West Coast, many food chains give bottled water about 60 to 80 linear ft. in their stores.

One buyer told Fm that the category is right for todays market. "Everyone is thinking healthy right now," he says, "and everyone is dieting. Many people choose to only drink juice or bottled water when they go on diets, and many others use the juice enhanced drinks as thirst quenchers after they exercise or exert themselves physically in some way.

"They're no longer just a West Coast item. They seem to sell well all over the country with maybe a few exceptions like some southern regions and some of the more conservative cities like Detroit."

The source said that if he did decide to stock the juice enhanced sparkling water beverages on everyday distribution, he would take about a 30% margin on his retail prices, and he'd promote it "probably twice in the spring and summer and at Christmas. They're good drinks by themselves or as mixers," he said.

Plain juice drinks are also doing

Nonfood chains are expanding their beverage mix to include more juice and juice related products. Buyers say healthy drinks are "hot."

Bottled Water Retail Sales Trends
(through food stores only)

All Bottled waters	1982	1986	1987	% chng '87 vs '86
	(millions of dollars)			
	$137.7	$281.5	$355.7	26%

Source: Sami Dry Grocery Food Category Trends well in nonfood stores, buyers and brokers say. In Berlin, N.J., Art Silver, president of Silver Marketing says that Welch's grape juice drinks are doing exceptionally well. Most of the major nonfood chains promote juice drinks today including Drug Emporium, Rite Aid, K mart, Peoples, Wal-Mart, Target and Venture.

"Generally, when the nonfood chains promote juice drinks," says Silver, "they charge 20% to 30% less than the food chains. They also make money on it because generally they're buying on deal."

Juice Retail Sales Trends
(through food stores only)

Segment	1982	1986	1987	% chng '87 vs '86
	(millions of dollars)			
*Juice Drink Concentrates	$ 15.7	$ 33.4	$ 40.2	20%
**Single Strength Juices	$ 831.5	$1.369.2	$1.549.0	13%
**Canned & Bottled Juices	$1.684.5	$1.823.6	$1.863.4	2%

*All juices that need water added;
**Juices like Ocean Spray, Gatorade, Hi C
**All fruit juices & nectars

Source: Sami Dry Grocery Food Category Trends

Rite Aid scores with juice close out buy

Last April, Rite Aid was particularly successful with a multiple promotion of juice drinks. The chain bought a close out on the 8-oz. Welch's juices and advertised them three for 99 cents. Sources said the promotion was a big success, particularly selling well to young mothers and young adults.

Nonfood chains are also promoting more juice drinks at Thanksgiving and Christmas. Sparkling enhanced juice beverages like Sundance and Welch's sparkling grape juices get a lot of feature activity at Christmas. Several buyers say they will also promote Welch's new sparkling apple cider later this year.

Peoples ties in to Gatorade's fsi's

This year and last year, buyers say that Gatorade was so successful on promotion that the word "awesome" is the best way to describe it.

Peoples Drug has had so much success with Gatorade that they are occasionally tieing in with Gatorade's full supplement inserts (fsi's).

Last spring, People's ran an ad on Gatorade the same weekend the supplement came out. Because the supplement featured a 30 cents off coupon, the People's ad mentioned its own low sale price, then the copy added "plus added 30 savings" and suggested that consumers look in their Sunday Washington Post for more special savings.

People's can only do this in its Washington market, however, because this is the only market where People's can reach about 90% of its customers by advertising in one newspaper.

Rite Aid has also been very successful with Gatorade.

Sources for the Pennsylvania-based chain said they were ordering "huge" quantities of Gatorade for spring and summer '88. One source said Rite Aid will keep the large size Gatorade on an end for most of the summer months, plus, he said, they will put their single serve sizes in their coolers. He also said Rite Aid will be putting Welch's grape drinks into their coolers.

Cooler programs add to chain profits

Many chains are expanding their cooler programs into more of their stores. Rite Aid, for example, has coolers in about 1200 of their 2100 stores and is currently rolling them out to nearly all stores.

One source said the coolers generated considerable impulse sales and bring new traffic into his stores. He says he usually makes between 40% and 50% on every beverage he stocks in his cooler. Other drug chains with coolers are Walgreen's, K & B, Revco, Eckerd, and Peoples.

Buyers say that asceptic packs are also hot. Mothers especially seem to like them for their convenience. Just about every major nonfood chain has promoted asceptic packs recently including Walgreen's, K mart and Wal-Mart.

Longs has a permanent home for asceptic packs

Out on the West Coast, some Longs stores are creating permanent homes for asceptics. These stores generally take two or three six foot rows above the soft drinks and stock the asceptics there.

Generally, Longs only buys what is on promotion so managers tell Fm that margins on the asceptics are excellent, in excess of 20%.

"We price competitive to the food stores," says on manager. "But we don't give it away and because of the convenience, we get excellent turns."

Managers say they have advertised most of the most popular asceptic brands including the packs from Ocean Spray, Hi-C, Kool Aid Koolers and General Food's new asceptic pack for Tang.

Longs also recently did a major multiple promotion featuring Lipton products including their 100 count teabags.

One source said this was the first time Longs has done a chainwide promotion featuring multiple brands from a grocery manufacturer. However the source said Longs had tested the idea in several districts last year and that it worked so well, they decided to okay the chainwide promotion.

The promotion, which broke in two newspaper ads in May, featured a total of 34 items including the 100 count teabags, 12 flavors of the Sunkist Fun Fruits and 21 flavors of Lipton's side dishes: Noodles and Sauce, Rice and Sauce, Potatoes and Sauce and Pasta and Sauce.

The chain bought 20,000 cases and one source estimated that it took about a month to sell through.

"When consumers see a family of brand name products at a good price, then tend to stock up," said one manager. "That means we get a higher ticket sale and a pretty fast sell through."

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Former Allied Prez Forces Gold Circle Bidding War

By Kenneth M. Chanko

WORTHINGTON, Ohio — Just when it looked as though Gold Circle was a discounter that nobody wanted, a bidding war for the 76-unit chain is suddenly on.

While top Gold Circle executives continue their efforts to acquire the chain from Toronto-based Campeau Corp. through a leveraged buyout, Robert H. Morosky, former president of Allied Stores Corp., has put forth his own bid for the upscale discounter.

Jack Smailes, vice chairman of Gold Circle, who along with president Robert Glass is spearheading the management-led LBO, told *DSN* that he is aware of Morosky's interest. Smailes emphasized that it's definitely a competing bid, and that Gold Circle management is not working with Morosky in any way.

"It's a positive development in the sense that it indicates Gold Circle is a viable entity, and that if acquired, the central office should be kept pretty much intact," said Smailes, who has taken over all merchandising and marketing duties. "The negative would be that the process could become more drawn out, and that

(Continued on page 118)

Kinder-Care Plans Retail Expansion With Bargain Town, Apparel Chain

By Mary Ellen Kelly

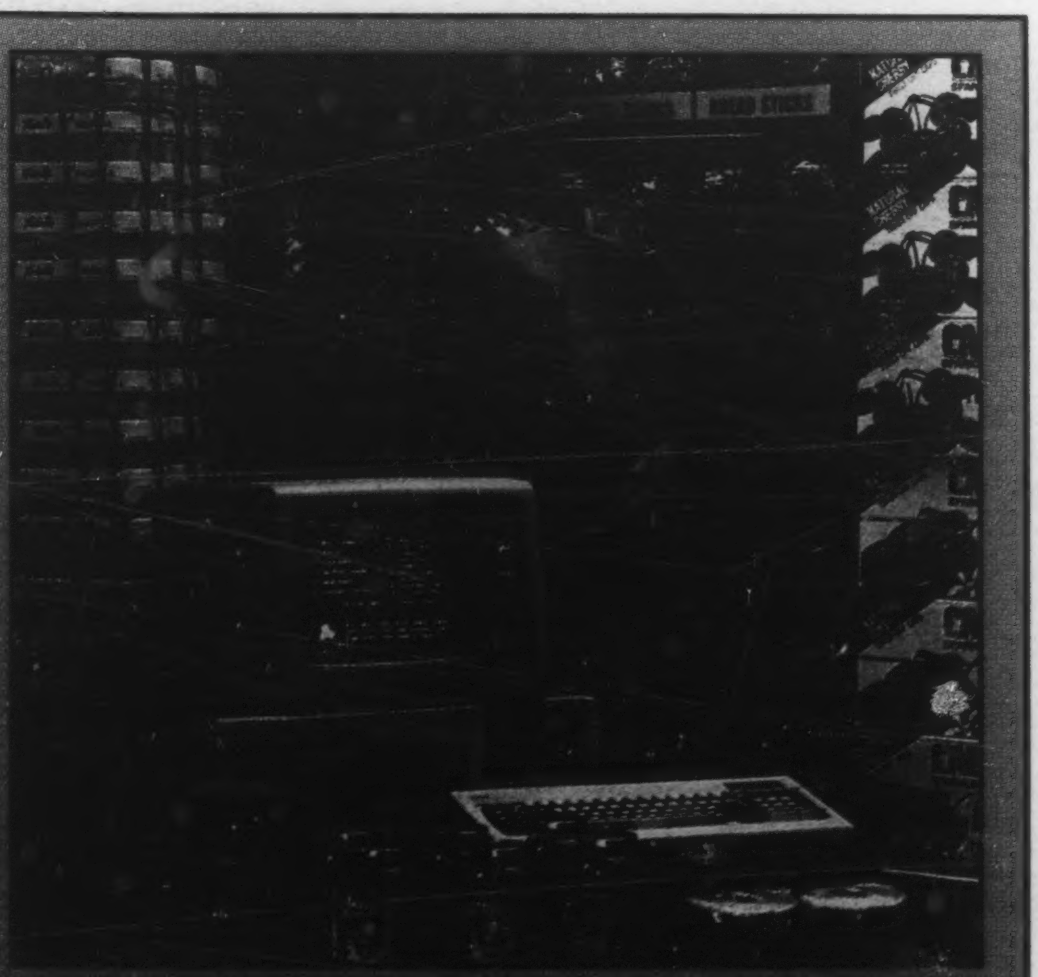
BIRMINGHAM, Ala. — Bargain Town USA, operator of 58 dollar stores and six Bargain Town R.P. (Right Place/Right Price) family apparel units, this month launched a one-price women's apparel chain called, "$imply 6."

Besides the new spin-off, Bargain Town's parent, Kinder-Care Inc., based in Montgomery, Ala., announced plans to expand Bargain Town USA into a $300 million retailer within five years. Kinder-Care acquired the then $48 million Bargain Town USA nine months ago.

Kinder-Care Inc. is believed to have the resources to carry out its aggressive retail expansion plans for the dollar store chain. Kinder-Care operates the nation's largest chain of children's day care centers (about 1,200 locations), extensive insurance and financial services, in addition to photographic studios.

The corporation reported revenues of over $506 million for the year ended Dec. 31, 1987, and net earnings of more than $26 million, despite an $18 million loss charged

(Continued on page 117)



GROCERY EXPRESS, a phone and computer food ordering service, will go on-line this fall on the PRODIGY system.

Prodigy to Give Big Apple A Taste of PC Shopping

By Arthur Markowitz

WHITE PLAINS, N.Y. — Prodigy Services Co. plans to expand its start-up national interactive computer home shopping and information service—launched in three markets last month—to New York City next year.

Besides being part of the electronic retailer's goal of being in 20 of the nation's top markets by the end of 1989, the move will expose PRODIGY to both Wall Street and Madison Avenue, thereby turning the innovative videotex service into a high-profile venture.

A number of other videotex services like Viewtron in Miami and Gateway in Los Angeles have failed in the past because of high costs, limited use by consumers and little exposure to potential advertisers like retailers and such

(Continued on page 118)

Son of Industry Pioneer, Catalog Vet Team Up for New Showroom Chain

BATON ROUGE, La. — Huey Wilson, a unique jewelry/giftware specialty showroom chain, is being launched by two persons long familiar with the catalog industry.

The two are E. Woodrow Fleming, formerly vice president of Best Products' jewelry group, and Huey J. Wilson Jr., son of Huey J. Wilson, the entrepreneurial founder and developer of the former H.J. Wilson showroom chain.

The proposed chain, whose logo hasn't been finalized at presstime, is the first new showroom venture in years. Its start, following the turnaround of the industry's leading chains, Service Merchandise and Best Products, is another sign of new vitality in the showroom business.

The specialty merchandising nature of the new chain, however, illustrates how catalogers are refining their business to center their selling on higher-margin categories like jewelry, thereby undercutting competing full-price specialty retailers.

Huey Wilson Interests Inc., begun by the two executives, has joined the 12-member Associated Charter Catalogs group, and plans to use about 300,000 of that coordinator's books. A number of Wilson's relatives operate three other chains—Beard's, Kux Jewelers and Wilbro—which are also members of the Associated Charter group.

Fleming declined to discuss the financing of the new company. "This is the business I have been in for 25 years and I have always wanted to do something from the ground up. When Huey [Wilson Jr.] showed an interest in the specialty showroom idea, we got together," he said.

HWI plans to open at least four specialty showrooms, ranging from 8,000 square feet to 12,000 square feet, this

(Continued on page 118)

Discounter Sales Productivity

Discount Dept. Stores

Sales Per Store (In Millions)		Sales Per Sq. Ft.	
Fedco	$58.3	Meijer	$355.00
Meijer	47.9	Fedco	324.07
Ann & Hope	43.0	Ann & Hope	226.32

Source: DSN research

DSN Census Examines Productivity, Products

Nationwide DSN Report

Meijer in the Midwest, Fedco on the West Coast and Ann & Hope in the Northeast operated the most productive discount department stores last year, according to calculations from DSN's [illegible]

[illegible]

Hoopla Abounds at Wal-Mart Meeting

Ames Marr
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dy Forecasts
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MARKETWATCH

Thrifty Completes Purchase of Bi-Mart

LOS ANGELES — Thrifty Corp.—owner of Big Five, MC Sporting Goods, Gart Bros. and a major West Coast drug chain—officially acquired 37-store discounter Bi-Mart late last month. The acquisition by the Los Angeles-based chain included both Eugene, Ore.-based Bi-Mart and 110-store Pay 'n Save drug stores out of Seattle. Both chains were purchased from Pay 'n Save Inc., whose majority stockholder is the Trump Group—also the majority stockholder of Northern Automotive, the second largest auto aftermarket chain in the nation. When Thrifty first announced its intent to buy Bi-Mart and Pay 'n Save, the conglomerate said it would probably pass on to the acquired chains some of its sporting goods expertise. Thrifty Corp.'s combined sporting goods chains currently rank as the nation's second largest behind Carteret, N.J.-based Herman's.

Cataloger Parent Buys Computer Firm

MARKHAM, Ontario — International Semi-Tech Microelectronics, parent of the $280 million (American dollars) Consumers Distributing (U.S.), has acquired Canada Systems Group, a $142 million (Canadian dollars) data processing company. ISTM plans to combine CSG with Datacrown, a $50 million (Canadian) computer services and facilities management firm it had acquired earlier this year. ISTM, meanwhile, reported $25.6 million (Canadian) in sales for the fiscal year ended Jan. 31, up 67.3 percent from $15.3 million, while net earnings increased 38.5 percent to $7.2 million from $5.2 million.

NRMA Sessions Address Retail Systems

NEW YORK — Artificial intelligence applications and working sessions on UPC and EDI will highlight the Nation Retail Merchants Association's Retail Information Systems Conference to be held Oct. 2 to 5 at the Sheraton Hotel, Washington. At the conference, 300 exhibitors will have booths displaying and demonstrating computers, POS systems, scanning and marking equipment, software, electronic fund transfer and ATM terminals, and telecommunication products. Information: NRMA, Information Systems Division, 100 West 31st Street, New York, 10001. Phone: (212) 244-8780.

ShopKo Expands in Its Home State

GREEN BAY, Wis. — ShopKo will begin construction this fall on its 33rd Wisconsin store, scheduled to open in 1989. The 83,000-square-foot store located in Grafton will anchor a shopping center and generate some 200 employment positions, bringing ShopKo's home state employment count to 7,500 people.

Design Firm Looks to The Far East

NEW YORK — Walker Group/CNI, the retail design group based here, has announced the formation of a joint venture with Nomura Display Co. of Tokyo. The new entity, WalkerGroup/Japan, was formed to address "the needs of the rapidly growing markets in the Pacific Basin and the growing influence of Japanese companies within Southern California and the West Coast," according to Walker's Mark Pucci, principal-in-charge of the Los Angeles office. WalkerGroup/Japan, which is based in Tokyo, will provide architectural, interior design, retail planning, merchandising and market research services to Pacific Basin clients. Walker Group owns 51 percent of the new company; Nomura Display owns the remaining stake. Kenneth Walker, chairman of Walker/CNI, is the new company's president, with Nomura's Hidetomo Tanaka serving as vice president and managing director.

Key Quits Catalog Showroom Biz

AUGUSTA, Ga. — Allied Wholesale Distributors has become the latest Georgia-based regional cataloger to exit the showroom industry. It plans to close its nine Key catalog showrooms by September, citing reduced consumer interest in discount-price merchandise and a decline in sales as the reasons for the step. Key, a member of Paul Schultz Catalog's Premier Merchandising & Marketing group, was a $30 million chain with seven showrooms in Georgia and two in South Carolina. Last year, Savannah, Ga.-based Segall & Sons, closed its six showrooms.

FOR THE RECORD

In *DSN*'s May 23 issue, San Diego's population ranking as the country's 19th largest city, referred to the size of the San Diego Standard Metropolitan Statistical Area (SMSA).

Williamson Dickie is one of four SPARC (Supplier Performance Awards by Retail Category) award nominees in the men's apparel category. The SPARC ballot in *DSN*'s June 6 issue inadvertently listed the firm in the wrong category.

K mart to Open First Sports Membership Clubs in Mich.

TROY, Mich. — K mart will open its first Sports Giant membership sporting goods clubs in shopping malls in Madison Heights and Livonia, Mich., the company announced.

The first two stores of K mart's new sporting goods specialty venture are expected to open early next spring and employ about 90 each. Hiring will begin in January 1989.

Sports Giant will allot 25 percent of its 50,000-square-foot stores to activewear and athletic apparel.

Other offerings will include footwear, bicycles, and exercise, team sports, ski, hunting, fishing, golf, tennis and camping equipment.

Sports Giant is a new division of Builders Square, San Antonio, Texas, K mart's home center subsidiary.

K mart did not disclose how much it will charge for club dues, but did say that member prices will range 5 percent to 10 percent less than non-member prices. There will be an open membership policy, said Charles White, chief executive officer, Sports Giant.

K mart pegged the sporting equipment and leisure time products market at more than $32 billion annually, and noted that industry analysts predict a double digit percentage increase for 1988.

Also through Builders Square, K mart is cranking up another new specialty venture, Office Square, which will specialize in office products. The first Office Square will open sometime this summer in Palatine, Ill., outside Chicago, and K mart is planning a second store in the Chicago market.

Follows Showroom Expansion

Cataloger to Open New HQ, DC

CLEVELAND — Cataloger U.S. Merchandise plans to open a new 40,000-square-foot headquarters and distribution center in south Cleveland early next year.

The move will follow the chain's opening of a 21,000-square-foot showroom, its sixth unit, in September in the Points East strip center in Mentor, Ohio. Last year, the cataloger opened one showroom in Elyria, Ohio, and remodeled three older stores.

The chain's proposed new headquarters is located on a three-acre site in the Jennings Industrial Park at the intersection of Interstates 480 and 77. It will consist of a 10,000-square-foot office and a 30,000-square-foot distribution center and jewelry warehouse and grading facility, with room for a 16,000-square-foot addition.

When the new headquarters is opened, U.S. Merchandise plans to install a new decentralized minicomputer system to replace its current centralized electronic data processing network. Each showroom will have a standalone computer, polled each night, rather than the centralized setup that would be inoperable chainwide should the main computer fail.

U.S. Merchandise is using its new showroom prototype in Mentor. That layout features a central aisle with jewelry and giftware on opposite sides at the front and the remaining departments in the back. The warehouse has been cut by 2,000-square-feet to 10,000-square-feet to free up more space for selling, but it has been double decked to stock as many goods as in older, larger stores.

Twin Valu to Be 24-hour Operation

GREEN BAY, Wis. — ShopKo will establish a hypermarket industry first with its two proposed Twin Valu stores: they will be 24 hour, 7-days-a-week operations.

In other respects, the 180,000-square-foot units, set to open next year in Cuyahoga Falls and Euclid, Ohio, will mirror other hypermarkets, including spotting a number of health care services and specialty departments on the store's perimeter.

ShopKo disclosed its Twin Valu plans in an announcement late last month that confirmed *DSN*'s earlier story on the hypermarket venture (see *DSN*, June 20, page 1).

Twin Valu will carry 85,000 sku's—25,000 in foods, 60,000 in general merchandise. It will have 51 checkouts and its specialty department lineup includes in-store bakery, deli and seafood, an optical and pharmacy center, one-hour photo lab, portrait studio, floral shop and restaurant.

The stores are each projected to do over $1 million a week in sales, with more than half the volume coming from food. Footage will be divided about equally between food and general merchandise.

While ShopKo will run Twin Valu, the regional discounter will source food for the hypermarkets from Food Marketing Corp., Fort Wayne, Ind., a grocery wholesale division of Super Valu, ShopKo's parent.

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Part II

Annual Industry Report

Apparel Sales Hit $26B

Ladies' wear, still the largest single discounter merchandise category, will grow only about 2% to $16.1 billion, partly due to a lack of fashion direction. (DSN photo)

Full-Line Discount Store Productivity

Category	Discount Volume (In Billions)	Sales Per Store (In Thousands)	Dept. Size (In Sq. Ft.)	Annual Sales/ Sq. Ft.	Annual Turns	Percent Initial Markup	Percent Gross Margin
Ladies' Wear	$16.1	$1,965	11,000	$177.00	4.2	51.4%	30.4%
Housewares*	11.4	1,392	7,550	184.37	3.4	34.2	24.9
Men's/Boys' Wear	9.9	1,208	7,800	154.87	4.1	47.2	33.7
Hardware**	6.9	842	4,500	187.16	2.5	41.6	32.4
Consumer Electronics	6.4	781	2,300	339.65	3.3	30.2	17.4
Health & Beauty Aids	6.1	745	3,200	232.69	5.0	25.8	19.3
Automotives	5.7	696	2,400	289.92	3.1	34.1	25.4
Toys	4.5	549	2,500	219.72	3.0	37.2	26.6
Sporting Goods	4.0	488	2,500	195.28	2.2	37.4	28.7
Domestics	3.8	464	3,150	147.24	2.6	44.5	34.7
Photo	3.4	415	650	638.46	3.5	25.5	18.0
Stationery	2.7	330	1,900	173.42	3.8	47.2	42.2
Jewelry	1.9	232	650	356.77	2.1	52.4	42.5

**Includes personal care, small electrics, non-electrics and RTA furniture.*
***Includes paint.*
Note: Other categories totaled $4.6 billion.

Source: DSN research

DSN's Annual Discount Industry Report

Part II: Merchandising Analysis

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Annual Report: Part II

Apparel

Women's Wear Sluggish, But Sales Up 5.7%

Nationwide DSN Report

In the face of a continuing sluggishness in women's apparel industrywide, discounters and off-price specialty chains will manage a respectable 5.7 percent sales volume increase this year, according to *DSN* research.

Total sales will hit $22.3 billion in this most important apparel category. Full-line discounters will see sales grow by a mere 1.9 percent to $16.1 billion; off-pricers will experience a 15.7 percent jump this year to $5.9 billion.

By not having to deal as directly with the highly volatile aspects of cutting-edge women's fashion, including the "great hemline debate," most discounters and off-pricers were not hurt as severely as the upper-end department and women's specialty stores.

Lack of One Fashion Look

However, discounters were affected by the distinct lack of any one fashion look or item to spur ladies' wear sales. The acid-washed denim jean, no longer a new item, is the last fashion product to stir any real excitement and drive the business.

Ladies' wear sales per store edged ahead by 0.9 percent to $1,965,000. General merchandise discounters enlarged their women's departments, going from an average of 10,000 square feet per to 11,000 square feet.

Because of the greater space, coupled with slower than normal sales growth, sales per square foot dropped by $18, or 9.2 percent, to $177 per square foot.

Turns slowed to 4.2 from 4.5, reflecting the lack of fashion excitement in the market. In addition, because of the need to react more quickly to style changes, ladies' wear manufacturers and retailers have been more reluctant—compared to their men's wear counterparts—to institute wholesale Quick Response programs.

Initial markup rose to 51.4 percent from 47.4 percent, and gross margin shrunk to 30.4 percent.

Upscaling of ladies' wear departments, at both full-line discounters and off-pricers, continued over the past year, along with the addition of higher-end brands.

One of the more important strategic moves of late among the top discounters was Wal-Mart's exclusive Bobbie Brooks woman's apparel deal.

Sales of apparel for juniors slowed during the second half of last year and business is still sluggish, with no hot fashion item to drive the category. Pictured is Apricot Bay private label at Ames' Meriden, Conn. unit. (DSN photo)

Earlier this year Wal-Mart added the fashion women's wear brand, which represents a significant upscaling step. Carrying price points at the upper end of the chain's apparel price structure, Bobbie Brooks is, more or less, Wal-Mart's answer to K mart's Jaclyn Smith line, although the two can't be directly compared.

Wal-Mart, much more so than either K mart or Target, takes a more basic approach in women's wear. So the addition of Brooks, along with a trend—sparked in part by its Hypermart USA—toward getting more recognizable brand names in Wal-Mart stores, is a major step by the huge discounter.

K mart is increasing its commitment to the category, and to apparel in general, with its new prototype for its mid-size units. This features increased apparel space and places all apparel in the infield. Ladies' wear dominates the middle island, which is the most visible upon entering the stores.

Last year K mart also debuted two new ladies' wear private label programs, Weathered Blues, a denim-influenced sportswear collection, and The Body Company, a group of workout/active wear.

The nation's No. 1 discounter recently kicked off another private label collection, called Beverly Hills Blues, an even more upscale woman's sportswear line.

Target also continues to emphasize image brands and labels. For example, it had No Excuses (advertised by once-famous Donna Rice) last summer in store when it was hot.

Petites and plus sizes, and maternity to a lesser degree, are among the few growth areas in the sluggish ladies' wear category these days.

Ladies' Wear $22.3 Billion	
Full-Line Discounters	$16.1B
Catalogers	$0.3B
Specialty Discounters	$5.9B
Full-Line Discount Store Productivity	
Sales	$16.1B
Sales Per Store	$1,965,000
Dept. Size	11,000 Sq. Ft.
Sales Per Sq. Ft.	$177.00
Turns	4.2
Initial Markup	51.4%
Gross Margin	30.4%
	Source: DSN research

Added Brand Names Boost Men's Wear 9%

Carrefour's hypermarket, like Wal-Mart's Hypermart USA, features fashion apparel, but it also emphasizes basics such as this row of Hanes athletic socks, sold in multiple packs at low price points. (DSN photo)

Nationwide DSN Report

Spurred by an overall stronger merchandising approach and healthier category business in general, men's and boys' wear sales at full-line discounters and off-pricers are expected to jump 9.3 percent this year to $12.9 billion. This rise compares to a 3.5 percent sales increase for the category last year.

Adding More Brand Names

Across the board, discounters continued to moderately trade-up to more fashionable and in many cases more recognizable brand names.

The addition of the Campus and Manhattan men's wear brands—which until recently were department store labels—at many discounters was part of the upscaling in product mix.

(Continued on page 30)

Men's/Boys' Wear $12.9 Billion	
Full-Line Discounters	$9.9B
Catalogers	NA
Specialty Discounters	$3.0B
Full-Line Discount Store Productivity	
Sales	$9.9B
Sales Per Store	$1,208,000
Dept. Size	7,800 Sq. Ft.
Sales Per Sq. Ft.	$154.87
Turns	4.1
Initial Markup	47.2%
Gross Margin	33.7%
NA—not available	*Source: DSN research*

More Brand Names Add Pizzazz to Men's Wear

At the Piqua, Ohio prototype, K mart expanded the square footage for apparel and put it in the store's infield, attracting more customers to men's wear, among other apparel categories. (DSN photo)

(Continued from page 29)

Among the full-line discounters, sales will be up 8.8 percent to $9.9 billion, according to *DSN* research. Last year, sales increased by just a little over 2 percent.

The nation's off-pricers are seeing the men's and boys' wear category grow even faster, with sales expected to be up 11.1 percent this year to hit the $3 billion mark for the first time. Last year, off-pricer sales inched up by less than 3 percent.

There was a 7.7 percent increase among the full-liners in departmental sales per store from $1,122,000 to $1,208,000, and a 7.7 percent increase in sales per square foot.

Department store size remained the same—at an average 7,800 square feet per store—despite a call for more space by most merchandisers and buyers in the category.

A recent *DSN*/Jerard Less study, which surveyed men's and young men's wear buyers and executives at 27 major chains nationwide, found that an overwhelming majority felt an increase in square footage was necessary as well as overdue. They added that they could easily maximize any increase in floor space in their respective departments.

Turns are up to 4.1 from last year's 3.7, which reflects the healthy state of this category and the fact that more discounters are going on-line with more Quick Response strategies in men's wear, especially compared to women's wear.

Also, initial markup increased to 47.2 percent from last year's 44.5 percent, yet gross margins fell by 0.5 percent to 33.7 percent from 34.2 percent.

In addition to more brand names being made available to discounters, the opening of Wal-Mart's Hypermart USAs has greatly affected that discounter's apparel approach.

Trickling Down

The combined sophistication of presentation and top-of-the-line product carried at the two hypermarkets has been slowly trickling down to Wal-Mart stores.

For instance, at the Hypermart USA in Garland, Texas, long rows of cubes carrying just prewashed Levi 501s (at $18.98) was a presentation unlike that of any other general merchandise discounter in the country. Other men's wear labels the hypermarket carried included Guess, Zeppelin, Arrow's Brigade Unlimited, OP and Reebok T-shirts.

While relaxed, more fashionable young men's looks continue to influence both men's and boys' wear lines, most discounters don't break out a separate young men's department per se.

The biggest growth segment in men's wear are big and tall (but mostly big) sizes. K mart recently completed institution of a program that now has big and tall in all its stores. Also, acid-washed jeans turned out to be more of a success in men's wear than anticipated.

Target recently added a new private label program, under the label Greatland, which focuses on men's fashion outdoor wear.

Ames Department Stores has finetuned its men's wear area, promoting more fashion-oriented item buying. It also recently opened a "summer shop," which has been rolled out in certain units. It's a shop within the men's department that gathers together novelty T-shirts and tank tops, shorts, swimwear and other summer items. This reflects a more sophisticated "concept" merchandising approach for the chain than in the past.

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Jewelry: Discounters Gain 11.8%; Catalogers Take Half of $5.1B Sales

Nationwide DSN Report

Spurred by novelty items, varied finishes, strong basics and weak apparel direction, jewelry sales managed an 8.5 percent increase to $5.1 billion at discounters nationwide in 1987 compared to the $4.7 billion in the previous year, according to *DSN* research.

The biggest sales gain came from specialty discounters, where sales climbed 16.7 percent to $700 million, while full-line discounters managed an 11.8 percent gain to sales of $1.9 billion during 1987. However, still pulling in the bulk of jewelry sales were catalog showrooms, where sales during the year increased 4.2 percent to $2.5 billion.

At full-line discounters alone, jewelry sales per store rose to $231,900 in 1987 from $209,500 in 1986, but department size remained the same at 650 square feet, producing sales per square foot in 1987 of $356.77 compared to $322.30 in the previous year.

Initial markup also increased at full-line discounters, moving from 49.2 percent to 52.4 percent, while gross margins increased from 40.5 percent to 42.5 percent and turns stayed constant at 2.1.

Problematic Apparel Depts.

For many discounters, these generally improved results were buoyed by the problematic apparel departments. Although jewelry purchases often accompany apparel sales, the lack of excitement in the latter category actually led many customers to update their wardrobes with jewelry.

Newness came to jewelry in several forms, including hoops, dangled and drop earrings, and button and flower touches, along with the hoop.

Varied textures also created interest for discount shoppers, as jewelry companies experimented with matte gold finishes and wood in faded color tones. Colors ranged from bold brights to soft pastels for spring and then moved to clear metallic tones for summer.

At the same time, discounters did well with more conservative offerings in classic styles and spectator colors. Additional interest was generated by a turn toward romantic styles and antique-inspired jewelry.

While discounters' basic costume jewelry line ranged from $3 to $5, several also carried a bridge price point as well. The trend toward more fine jewelry also continued at many discounters, as more realized an improved perceived customer image.

Superstore Fred Meyer rated such success with its fine jewelry that the Portland, Ore.-based chain opened freestanding Fred Meyer Jeweler stores in late 1987. Located in large regional malls, the stores allow Fred Meyer to reach many new customers and also add credibility to the fine jewelry departments chainwide.

Other retailers found additional business by introducing or stepping up their children's costume jewelry selection.

Norwalk, Conn.-based Caldor rolled out a kids' costume jewelry program to all stores that features a tower stand in the jewelry area, just adjacent to kids' apparel.

Jamesway also realized positive results with children's jewelry, which now accounts for 25 percent to 28 percent of the chain's total jewelry business while only accounting for about 15 percent to 20 percent of the assortment.

Going forward, newness will come with rich brights as jewelry takes on a fall approach. While it has been able to survive in the midst of poor apparel sales, jewelry could realize better sales growth if apparel improves.

Jewelry: $5.1 Billion	
Full-Line Discounters	$1.9B
Catalogers	$2.5B
Specialty Discounters	$0.7B
Full-Line Discount Store Productivity	
Sales	$1.9B
Sales Per Store	$231,900
Dept. Size	650 Sq. Ft.
Sales Per Sq. Ft.	$356.77
Turns	2.1
Initial Markup	52.4%
Gross Margin	42.5%

Source: DSN research

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Annual Report: Part II

Home Products

Housewares Evolves to Home Lines Approach

Nationwide DSN Report

During 1987, housewares evolved beyond the limitations of its former "hard lines" label at several of the top full-line discount stores, and became the cornerstone on which many chains built a new home lines merchandising division.

The face of housewares was further changed by the growing importance of ready-to-assemble (RTA) furniture, which gained either space, prominence or both in many discount stores.

In contrast, some discounters cut back on space in microwave ovens, and to a lesser extent in microwave cookware, as the microwave oven market neared saturation.

Electric housewares assortments also went through a transition during the year due to the lingering impact of retailers' anti-rebate stance and vendors' decisions to either comply or ignore these demands.

The infusion of color, Eurostyling and graphics into clocks, bath scales, shoe racks and kitchen gadgets proliferated in housewares assortments, warranting a new merchandising approach. In response, many retailers created a home lines division that allows housewares merchandise to be treated not merely as functional products, but as fashion pieces—similar to the way many soft goods are sold.

Housewares*: $13.1 Billion

	Non-Electrics $7.7 Billion	Personal Care $3.1 Billion	Electrics $2.3 Billion
Full-Line Discounters	$7.1B	$2.9B	$1.8B
Catalogers	$0.6B	$0.2B	$0.5B
Specialty Discounters	NA	NA	NA
Full-Line Discount Store Productivity			
Sales	$7.1B	$2.9B	$1.8B
Sales Per Store	$866,600	$354,000	$219,700
Dept. Size	5,900 Sq. Ft.	800 Sq. Ft.	850 Sq. Ft.
Sales Per Sq. Ft.	$146.88	$442.50	$258.47
Turns	3.3	3.5	3.5
Initial Markup	40.3%	30.4%	31.8%
Gross Margin	32.1%	21.3%	21.3%

**Includes small electrics, personal care, non-electrics and RTA furniture*
NA—not available

Source: DSN *research*

Creating Home Lines Divisions

Chains such as K mart, Wal-Mart, Rose's, Caldor and Gold Circle each created a home lines division last year, aware that the integrated fashion components of furniture, domestics, tableware and bath accessories are at least as important to most consumers as the product's functional aspects.

Now housewares merchandisers at these and other chains work more closely with manufacturers and merchandisers of related products to offer shoppers products from different categories that can create a coordinated room setting.

At Gold Circle, merchandisers even went so far as to distribute color swatches for use in buying decisions. In some cases, manufacturers created home lines merchandise in colors requested specifically for the Worthington, Ohio-based discount store chain.

After restructuring its merchandising divisions in 1986 in an effort to achieve category dominance, No. 1 discounter K mart introduced a new spokeswoman for its home lines merchandising division. At K mart, the Martha Stewart program acts as the umbrella under which home lines will be bought and merchandised.

Stewart—nationally acclaimed author of numerous books on food preparation and home entertaining—is being employed as a marketing agent to suggest to shoppers that K mart provides them with all the ingredients needed to create the ideal home environment.

Dinnerware is among the first products that will likely bear the Martha Stewart name, according to Marilyn Gill, divisional merchandise manager for home fashions at K mart.

Further cross-merchandising could be viewed at Hills Department Stores, where housewares and tableware products were merchandised in a room setting with RTA furniture.

In fact, discount store RTA buyers told *DSN* they were pleased with vendors' abilities to find innovative ways to duplicate or improve upon preassembled furniture designs. Vendors such as Armstrong RTA—under the tutelage of its preassembled Armstrong parent—and Sauder Woodworking have inspired retailers to give the category room to grow.

Chains such as Caldor and Clover merchandise the category in room vignettes, an approach which until recently was thought to require more space than previous sales levels had warranted.

The ability of RTA manufacturers to duplicate preassembled furniture styles as well as the growing importance of RTA to the furniture business as a whole warranted the participation of most of the major RTA manufacturers at the High Point, N.C. Southern Furniture Market exhibition in the spring.

A high percentage of the RTA vendors at High Point were exhibiting there for the first time, having found the National Housewares Manufacturers Association and its show adequate until recently. Most RTA vendors said they are looking beyond full-line discounters for business, believing that the chains do not fully exploit RTA's renewed sales potential. Even though discounters are devoting more space to the category, they continue to squeeze the maximum number of skus into that space.

Space allocations for microwave ovens, on the other hand, are likely to be cut due to flat sales during 1987 and poor performance to date in 1988.

Last month the Association of Home Appliance Manufacturers announced that as of May, year-to-date shipments of microwave ovens were down more than 12 percent, while overall appliance shipments were down 2 percent from previous year levels. For the month of May, microwave oven shipments were down nearly 15 percent, compared to flat shipments for all other major appliances.

Research conducted by AHAM, *DSN* and oven manufacturers conclude that market penetration of microwave ovens is hovering between 65 percent and 75 percent.

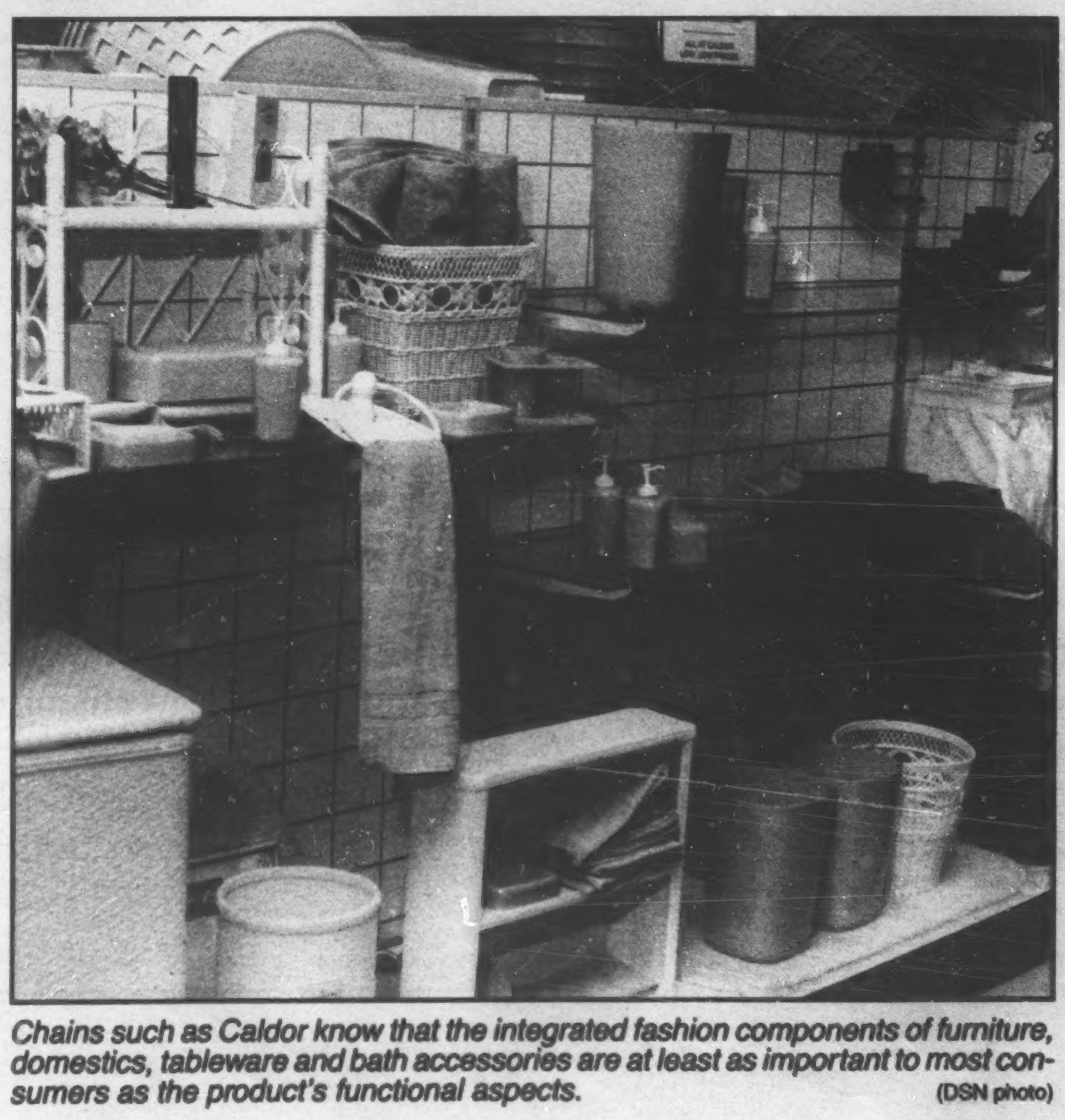
Other electric appliances appear to have been little affected, to date, by the elimination of rebates by many manufacturers. K mart's announcement early in 1987 that it would no longer sell housewares with mail-in rebates triggered similar reactions among other discount chains.

According to *DSN* research, housewares sales were up $400 million in 1987 over 1986 to $13.1 billion at full-line discount stores and catalog showrooms.

Full-line discounters captured $7.1 billion of the total $7.7 billion non-electric housewares market. Sales per discount store rose to $866,600 last year, from $850,500. Average department size grew slightly to 5,900 square feet, from 5,800, while gross margin, turns and sales per square foot were essentially flat at 32.1 percent, 3.3 and $146.88, respectively.

The personal care housewares market grew by about $100 million to $3.1 billion. Full-liners garnered $2.9 billion last year, up from $2.8 billion in 1986. Sales per store ($354,000), sales per square foot ($442.50) and gross margin (21.3 percent) were up slightly last year over 1986.

Full-liners registered $1.8 billion in electric housewares sales last year—out of a total market of about $2.3 billion. Sales per square store grew to $219,700 and sales per square foot increased to $258.47. Gross margin increased to 21.3 percent, from 21.1 percent. Catalog showroom sales in all three housewares catagories were flat: $600 million in non-electrics; $200 million in personal care; and $500 million in electrics.



Chains such as Caldor know that the integrated fashion components of furniture, domestics, tableware and bath accessories are at least as important to most consumers as the product's functional aspects. (DSN photo)

Weak '87 Prompts Increase in Higher-End CE

Nationwide DSN Report

The consumer electronics industry tread water in 1987, with hot CD players, camcorders, home office products and stereo televisions offsetting a radical slump in VCR sales. However, the sinking of the dollar against the yen, coupled with a lack of new and exciting technology, could portend bleaker days ahead.

Overall, the industry inched forward about 4.5 percent, in contrast to its double-digit growth of the past, to about $31 billion in factory sales to retailers. Discounters, catalogers and CE chains accounted for $13 billion at retail, according to *DSN* research.

According to *DSN* research, specialty discounters did a little better in 1987 than did full-line discounters and catalogers, increasing sales from $5.5 billion to $5.7 billion. Overall, however, discount share growth in the market was nearly non-existent—$6.3 billion to $6.4 billion—perhaps because of the retailers' limited access to many of the hottest products, like CD players.

Strengthening CE Presence

That may change in 1988, as discounters appear poised to bulk up their CE presence, adding higher-end products and deepening selection. Wal-Mart, which is adding computers on a test basis this summer, and Ames, which is introducing sequestered CE shops to its new prototype, are only two examples.

Discounter retrenchment in the CE field seems to have built up profitability. Markup and margins increased slightly, and sales per square foot likewise inched up to $339.65 at discount stores. The return of profitability (along with announcements of price increases by many vendors) will probably spur further CE activity among discounters in 1988 and 1989.

Apart from currency differentials, one of the greatest obstacles to growth industrywide is a lack of new and innovative technology. Digital audio tape, the most publicized of the contenders, could well turn out to be a bust, and may remain a very expensive product. Tandy's recordable compact disc system, scheduled to appear in 1990, likewise may turn out to be a disappointment to retailers looking for the next big thing. According to the company, the erasable CD is more of a computer than an audio product. What the product can do in the home audio market remains a mystery.

Hope is on the horizon, however, in the form of emerging LCD color video technology. Sony's 8mm Video Walkman, for instance, may be a bit pricey at roughly $1,300 when it's introduced this fall, but its combination of portability, excellent picture reproduction, television reception and adaptability to a palm-sized video camera should make it *the* prestige item among early users at holiday.

Upwardly-mobile business travelers, vacationers and outdoor types alike are almost certain to jump on the product, and as the price comes down, it should spread comfortably to the population at large. With over 1,000 movie and video magazine titles already available commercially, the portable video should not run into the software shortage problems that are plaguing the DAT introduction.

LCD is also being applied to projection TV (by Sharp) and to portable TV monitors (by Sharp and several others) and could quickly become a new and profitable category.

Those products will not hit traditional discount stores right away, though warehouse clubs, catalog showrooms and, of course, CE chains will find them of immediate interest.

Discounters, which have virtually dropped out of the LP album market in favor of CDs, will probably be most interested in recent applications of CD to portable players, midrange components and boom boxes. These products will continue the spread of compact disc technology to the masses, meaning that discounters are primed to cash in on what has been the brightest CE success story since the VCR.

Discounters will also benefit from another major bright spot, home office equipment. Fax machines, personal word processors and home computers have all reached mass market level prices, and discounters are reacting by beefing up their home office presence.

Consumer Electronics $13.0 Billion	
Full-Line Discounters	$6.4B
Catalogers	$0.9B
Specialty Discounters	$5.7B
Full-Line Discount Store Productivity	
Sales	$6.4B
Sales Per Store	$781,200
Dept. Size	2,300 Sq. Ft.
Sales Per Sq. Ft.	$339.65
Turns	3.3
Initial Markup	30.2%
Gross Margin	17.4%

Source: DSN *research*

Camcorders, which first entered the discount market last year, continue their hot growth curve. Sales were up last year to about $2 billion, and the Electronic Industries Association estimates a further 20 percent increase to about 2.4 million units.

Another bright spot may be the decision by most manufacturers of blank audio and video tape to call off the price war of the past five years. Nearly all of them have announced significant price increases, and most have added that they will forsake "giveaway" promotions. The idea, one manufacturer said, is to put more profit into these products for both the vendor and retailer. Among those manufacturers announcing price increases were Sony, Fuji, BASF and TDK. Since tape, like accessories in most fields, is viewed as the most profit-intensive area of the industry, the restructuring of prices will be good news to discount retailers.

EIA expects rapid growth in the Super VCR field (with built-in stereo capability and better picture resolution), but even at a projected rate of 3 million unit sales per year by 1989, the category is not likely to rejuvenate the suffering VCR market.

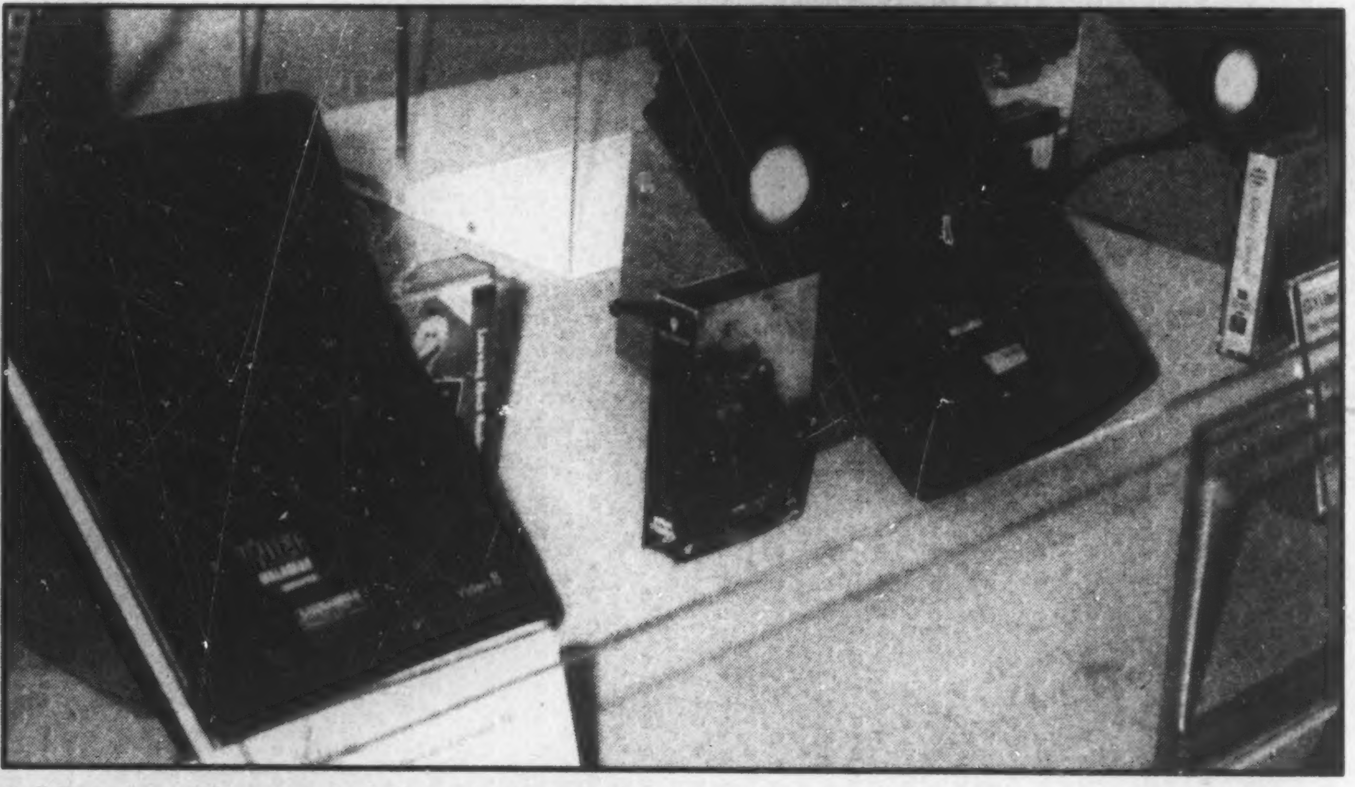
Component and compact audio systems, mainstays of discount CE departments, have been virtually flat in unit sales, and as prices drop, have actually declined in retail dollars. That trend is projected to continue.

Compact disc players, on the other hand, should double unit sales between 1987 and 1989, from 3.3 million units to nearly 6 million.

In terms of department productivity, full-line discounters saw their per store sales of CE products climb to $781,200, from $776,600 the previous year. Sales per square foot were up slightly to $339.65 from $337.65 and gross margin inched up to 17.4 percent from 17.2 percent.

Overall, the industry appears strong. Home electronics has become pervasive among American consumers who have shown that they're not averse to duplicating products as long as some new element is added (like the success of personal stereos in conjunction to home units). Evidently, discounters are now seriously looking at major expansion of their departments, and with the specialty end of the business encountering competitive difficulties, the timing may be right.

According to the EIA, the total industry should grow at about the same rate this year as last, to about $32.4 billion, with accelerated growth (to about $34 billion) next year. Most of the growth will be the result of certain hot categories (like home office), accessories (like blank audio and video tape) and compact disc players.



LCD color video technology is emerging in the form of Sony's new, portable 8mm Video Walkman, which is scheduled to be introduced this fall.

This year, discounters appear ready to bulk up their CE presence by adding higher-end products and deepening selection. Here, electronic typewriters are stacked on an endcap at Wal-Mart's new SuperCenter in Washington, Mo.

Catalogers, as well as discounters, are beefing up their home office presence with personal computers, fax machines and home computers, as seen here at Service Merchandise in Hickory Hollows, Tenn.

(DSN photos)

Flat Domestics Sales Prompt Chains To Create Fashion-Oriented Image

Nationwide DSN Report

Upscaling strategies in discount store domestics departments affected business only slightly in 1987, as home fashions sales remained essentially flat. Discounters have long groaned that domestics was rapidly becoming a commodity market, with minimal profit potential and discouraging results outside white sales and other special promotions. But, some took steps in 1987 to turn the situation around.

The situation was particularly painful because home fashions specialty chains, which were springing up like wildfire, seemed to be doing just fine, retailing roughly the same products discounters carry at considerably more favorable markups, although most offered discounts from department store prices. Overall, the home fashions industry has exploded over the past two years, and projections indicate that the growth may have only just begun.

Why, then, aren't discounters getting their share? The answer to that question, several retailers seem to have decided, is a lack of fashion image. "If consumers feel that a retailer is on top of fashion, they feel more confident spending their money, and they are willing to spend more for that reassurance," one buyer said.

Creating a Fashion Image

The problem that remains, however, is how to create a fashion image in an environment that, quite frankly, simply can't afford to look au courant. "A high-fashion bed and bath shop just runs counter to what discounting is all about," another buyer pointed out.

The answer, several chains decided last year, lies in coordination. The leader in adopting the concept was Gold Circle, the Worthington, Ohio-based discount store division of Federated Department Stores.

Its answer, a program called HomeViews, combined semi-exclusive fashion products in a color palette that extended from bath towels to bathrugs, sheets, ceramics, window treatments and comforters.

All products were collected in a central area within the home fashions department, with individualized signing and videotape presentations to familiarize customers with the concept.

All seemed to be going well, as a chainwide premiere in early March created, at some stores, nearly empty shelves.

However, as rumors of an impending takeover of parent Federated spread through the industry, plans to expand the program were placed on hold, and shortly after Federated's acquisition by Campeau, several key buyers and merchandisers left, including senior vice president for soft home, Steven Fishman, who left Gold Circle for Caldor.

With Gold Circle's future in the balance (a proposed management-led leveraged buyout has so far failed to materialize), the HomeViews experiment remains on hold.

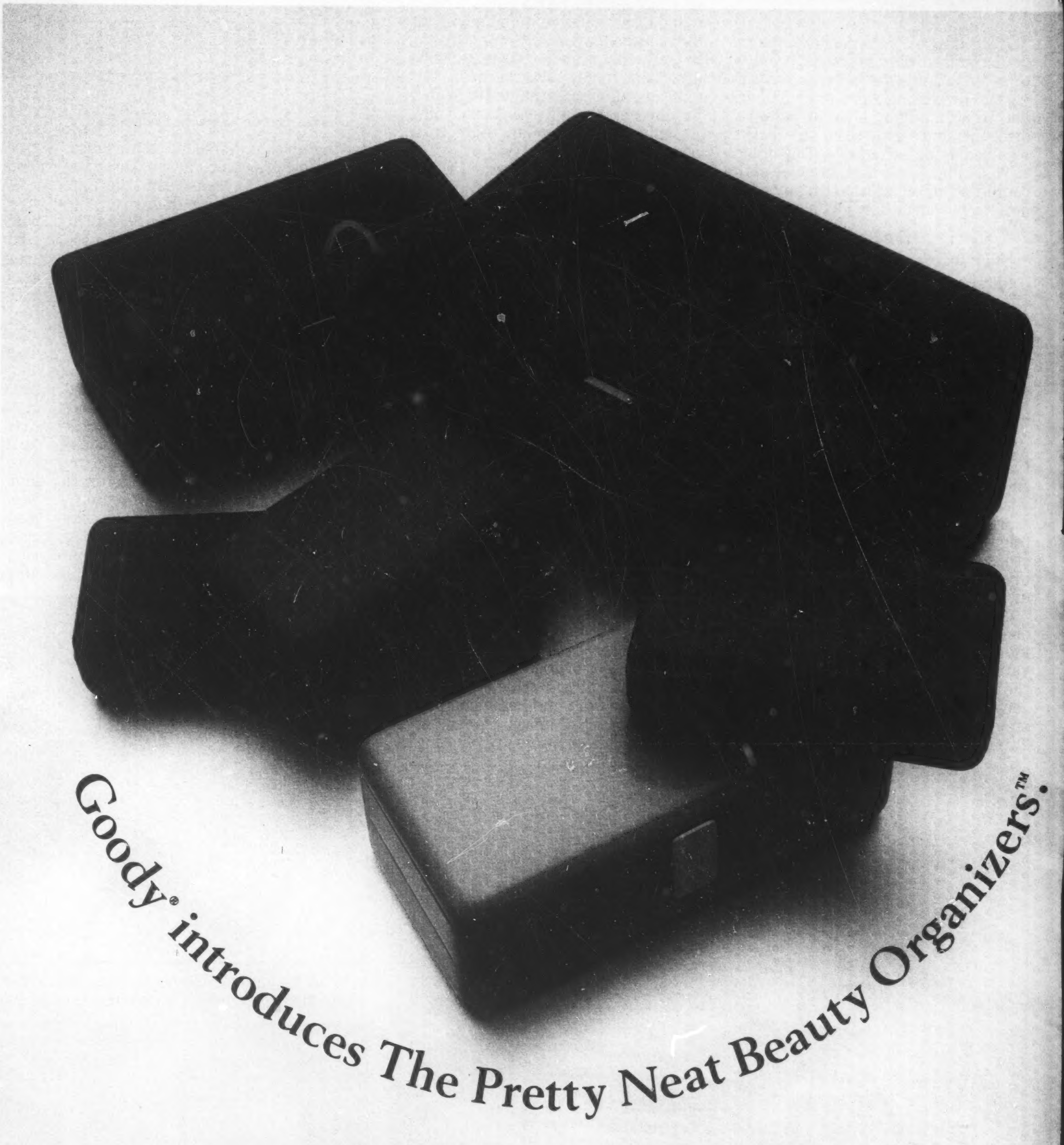
However, preliminary results were encouraging, and other chains utilizing similar, if less comprehensive, approaches have also encountered a degree of success, causing more chain buyers to look at the coordinated concept as a potential traffic and sales builder.

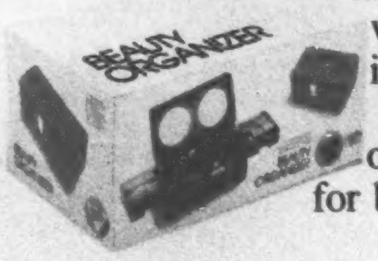
Before he left, Fishman noted that a key issue in the decision to go with HomeViews was that of "differentiation." As discount stores become less and less distinguishable from one another, management has looked high and low for ways to stick out in a crowded marketplace.

(Continued on page 45)

Domestics: $5.2 Billion	
Full-Line Discounters	$3.8B
Catalogers	$0.3B
Specialty Discounters	$1.1B
Full-Line Discount Store Productivity	
Sales	$3.8B
Sales Per Store	$463,800
Dept. Size	3,150 Sq. Ft.
Sales Per Sq. Ft.	$147.24
Turns	2.6
Initial Markup	44.5%
Gross Margin	34.7%

Source: DSN research





What happens when you combine Goody's manufacturing know-how with some Pretty Neat ingenuity?

You get the first beauty organizers designed especially for both make-up and fashion accessories: Pretty Neat® Beauty Organizers. And you couldn't give your customers a better combination of superb styling and useful features.

Like roomy compartments and swing-out trays that glide for easy access. In sizes from simple compacts to deluxe double-trayed,

While 1987 sales in home fashions at full-line discounters were basically flat, specialty chains carrying much the same products, like this Branden's in Atlanta, are proliferating. (DSN photo)

Upgrading of Fashion Image Vital for Growth

(Continued from page 44)

Target and Gold Circle, to name two, have settled on upgrading their fashion image, and others (Ames most recently) have followed suit.

In the domestics arena, such a move might well prove vital. As more and more retailers have targeted the department for future growth, competition has become much more intensive.

Specialty chains like Atlanta-based Branden's, the Dayton Hudson subsidiary, have been very successful, often selling products found in discount stores, but at prices higher than discount stores.

One explanation for that success among value-conscious consumers is that customers feel more secure buying fashion products from someone who at least ostensibly specializes in fashion.

Although most consumers seem to have become more confident in their decorating capabilities over the past five years, there remains a residual uncertainty about taste levels. Specialty stores offer a certain level of reassurance, and that, at least in part, explains their success.

As domestics becomes more and more competitive, discounters are finding they must upgrade their fashion image.

On the other hand, some discounters have succeeded in introducing a fashion image to their apparel departments, and they seem to be getting better at it every day. There is no real reason to think that the same can't be applied to the domestics area as well.

Gold Circle was (and may still be) well on the way, and textile manufacturers—as concerned with deteriorating profits among mass retailers as are the retailers themselves—seem willing to make the same kind of extra effort with other chains as Dundee Mills did with Gold Circle.

Cannon Mills, for instance, recently introduced a line of coordinated wallcovering borders to go with its mass market sheet, comforter and towel collections. The borders will be available only to mass marketers who sell the Cannon products and are meant to give discounters a means of differentiating themselves in a crowded marketplace.

Full-line discounters garnered $3.8 billion in domestics sales last year, compared to $300 million for catalogers and $1.1 billion for specialty discounters.

Productivity at full-line stores was up slightly in most categories last year: sales per store ($468,800 vs. $456,100); sales per square foot ($147.24 vs. $144.80); turns (2.6 vs. 2.5). Gross margin was down slightly to 34.7 percent, from 35 percent the previous year.

The first real results of several different upgrading strategies should start showing up in industry figures next year. To date, it appears that the more upscale discounters are having a strong 1988, and if that trend holds up, more traditional discounters will probably jump on it in 1989.

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double-mirrored models with convenient handles. All in appealing colors with eye-catching consumer packaging, die-cut to show off the colors. And all at attractive prices.

All of which will make Pretty Neat Beauty Organizers a year-round business with beauty-conscious women of all ages. Which is exactly what you expect of the company that launched the bestselling Lifestyles™ line. And Pretty Neat Beauty Organizers will be just as successful.

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pretty neat

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Film, Processing, Accessories Keys to Profit

Nationwide DSN Report

Film usage was up again last year, despite soft sales in some camera categories. The biggest news continued to be 35mm lens shutter cameras, but recent trends indicate that SLRs, which have been in a sales slump over the past five years, may be staging a comeback. This year will see the first widespread introduction of the exciting "bridge" cameras, essentially automatic SLRs.

The term "bridge" is slightly misleading. Ostensibly, it refers to products which mark a step up from lens shutter cameras, but a step down from SLRs. However, with some bridge cameras featuring interchangeable lenses and programmable special effects, there's a question about how much of a step down these cameras actually represent.

Cameras loosely considered in the category include products from Pentax and Chinon, and most major manufacturers are getting into the market. Most of the cameras feature a dual-lens approach, with self-focusing telephoto zoom lenses built in. Operationally, these cameras are much easier to use than are SLRs, and the picture quality is noticeably better than that of most lens shutter cameras. At prices ranging from under $200 to about $350, the category is within reach of most consumers, and it is becoming increasingly clear that consumers value picture quality very highly.

Easy-to-use, relatively inexpensive, automatic SLR cameras—'bridge' cameras—should appeal very strongly to consumers looking to make a step up from their simpler lens shutter models.

Consequently, the category marks a potentially valuable (and profitable) market for all retailers, with an advantage to discounters. The cameras are, on the whole, very easy to use. With automatic focusing (often triple-beam), nearly every picture comes out, and automatic fill flashes alleviate (to a degree) over and underexposure problems.

Assuming that the economy remains relatively healthy through 1989, these new cameras should appeal very strongly to consumers thinking about stepping up from inexpensive lens shutter cameras, but still put off by the complexity of SLRs. Many consumers, now familiar with the simplicity of the latest 35mm products, will choose discount stores as the outlet of choice.

With that thought in mind, several vendors have packaged their bridge cameras in easy-to-stack, colorful and relatively pilferage-proof boxes, with POP information included on the package, to appeal to mass marketers.

According to the Photo Marketing Association's Industry Trends Report published earlier this year, 35mm products have clearly become the cameras of choice among U.S. consumers. Over half the units sold (and three-quarters of the dollar volume derived thereby) were accounted for by 35mm cameras, with lens shutter products accounting for about two-thirds of that segment.

In the aftermath of this massive acceptance of 35mm technology, competing formats have experienced rocky times. Kodak, for instance, has announced the virtual abandonment of its disc products, once the fastest-growing segment in the market. Rumors persist that Polaroid, the leader in instant photography, is developing its own 35mm system.

Photo $3.7 Billion	
Full-Line Discounters	$3.4B
Catalogers	$0.3B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$3.4B
Sales Per Store	$415,000
Dept. Size	650 Sq. Ft.
Sales Per Sq. Ft.	$638.46
Turns	3.5
Initial Markup	25.5%
Gross Margin	18.0%

NA—not available

Source: DSN *research*

According to *DSN*, discounters held steady in their share of the market, increasing sales slightly to $3.7 billion from $3.6 billion in 1986, with most of the growth coming from the full-line discount store end of the market. According to several buyers, though, the profit margin in photo departments continues to decline. While gross margin figures held steady at 18 percent last year compared to the previous year, that figure was the second-lowest of all major discount departments (only CE, at 17.4 percent, was lower).

In other productivity measurements, full-liners' photo sales per store rose to $415,000 from $406,800 the previous year. Average department size was reduced to 650 square feet, from 675 square feet, resulting in a average sales per square foot of $638.46 last year, up from $602.66.

Buyers said that profit has virtually disappeared from the 35mm camera market, with the exception of low-end, point-and-shoot models. Heavy pressure from superstore and mail order photo specialists has depressed camera retail prices, forcing retailers to find other areas to make money.

The two that seem to be clicking are accessories and processing, although the competitiveness in photoprocessing may soon erode margins in that area as well.

As competitive pressure has depressed retail prices for cameras, discounters have been forced to look for profits in other areas—such as accessories and photoprocessing.

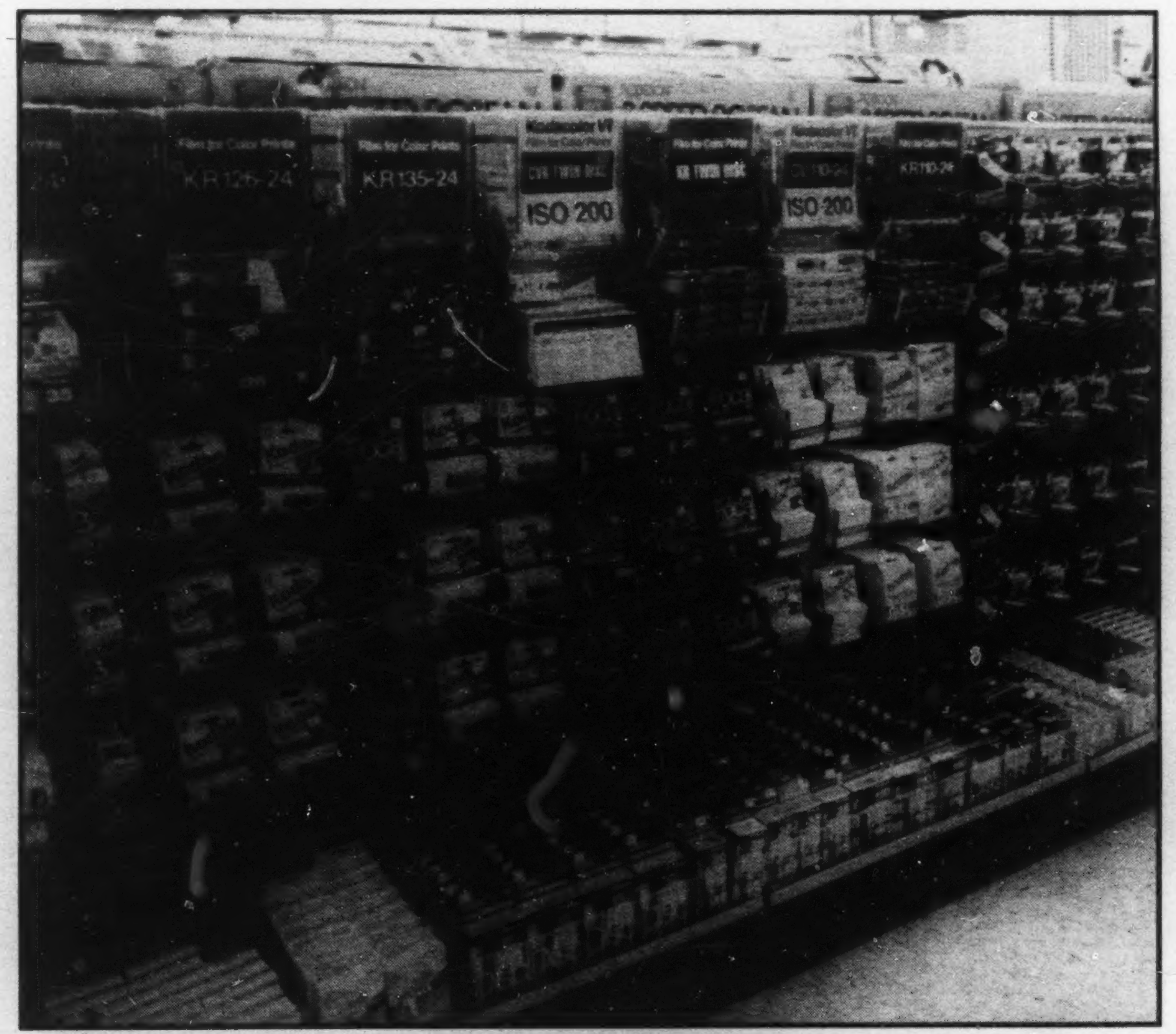
"I'm being priced out of a job," one discount buyer said, adding that management at his chain, after looking at department margin figures, threatened to cut photo products altogether. There is considerable doubt that even new 35mm products, which feature a degree of price maintenance and self-service type packaging, can turn a bleak picture around. The message from discount buyers is that they don't expect the situation to improve much in the near future.

While times have been good for most camera and film manufacturers, a dark cloud looms on the far horizon in the form of digital computer technology. Digital cameras have already reached the market in professional products that totally bypass film. Instead, the image is stored on a computer disc, from which it can be retrieved and printed, or transferred over telephone lines to another computer, which can then create the print.

So far, this technology is in its infancy, used only by a handful of national newspapers, but it will grow up very quickly. Image quality will improve, but it's unknown if it will ever reach the level of the more advanced films on the market today.

Meanwhile, film sales continue to explode, and some discounters have said that the boom in minilab business is all that keeps their photo departments profitable. As consumers have become more familiar with 35mm, the quality of their pictures has improved, leading to more business in the lucrative printing field.

Fuji and Kodak have each introduced small, automatic color printers which allow the operators (potentially the customers themselves) to crop, enlarge or otherwise manipulate the original image on a television monitor, then produce a color print at the push of a button. The size of the units, coupled with their ease of use and the potentially enormous profit they could create, makes them an attractive product to discounters.



Film sales continue to explode. However, profit margins in photo departments continue to decline, particularly on 35mm cameras.

Canon
OLYMPUS
Konica

According to an industry report, 35mm cameras have become the preferred choice for U.S. consumers, accounting for over half of all cameras sold last year and three-quarters of the sales volume.

(DSN photos)

Light Truck Accessories Pace Automotive Sales

Nationwide DSN Report

The automotive aftermarket just keeps on truckin'.

As light truck sales continue to capture market share in total vehicle sales, sales of pickup, van and four-wheel parts and accessories are increasing rapidly at an 11 percent clip. That compares with growth of the total automotive aftermarket at 2.8 percent in 1987.

Outpacing the overall market was the growth of discount automotive aftermarket retailers, including full-line discounters, catalogers and specialty discounters. In 1987, these discounters accounted for better than 10 percent of the automotive aftermarket, an estimated $10.1 billion out of a total of $93.6 billion in parts and service. Specialty auto parts discount chains accounted for $4.3 billion in 1987.

With the exception of Wal-Mart, discounters share of the service component, $20.9 billion, continues to slide as automotive service over the past year became even more of an endangered species at full-line discount chains.

Venture closed its remaining 26 service centers in February and has leased the service bays at at least 13 of its 76 stores to tire operators, such as Western Auto's (now Sears) Tire America. Last August, Zayre closed service bays at its last 108 stores that still offered automotive service.

K mart continues its policy of skipping automotive service in favor of soft lines at all new stores and is closing many service centers when remodeling mid-size stores and using the space for apparel expansion. The handwriting appears to be on the wall for automotive service at many of the 500 mid-size stores. Of K mart's approximately 2,200 stores, only an estimated 1,275 offer auto service.

In contrast to K mart's policy, many new Wal-Marts include auto service bays. Out of 1,114 Wal-Mart stores, more than 200 offer auto service. Wal-Mart plans to add 125 new stores this year on top of 134 last year.

Car care malls, which are the hottest new wrinkle in the automotive aftermarket, have drawn the first automotive specialty chains over the past year. Out of the 550 car care malls expected to be operating by the end of the year, three have attracted specialty chains, two Schuck's units in Kansas City, Mo., and one Western Auto store in the Fort Worth, Texas, market.

In the case of Western Auto's mall, the developers, the Thompson family of 7-11 fame, have been unable to attract any car care specialty tenants after Western Auto became the first.

Speculation centers on the reluctance of specialty brake, muffler, tune-up and tire chains to locate in the same mall with Western Auto, which provides general car service that would compete with them all.

On the other hand, Goodyear, which also offers general auto service, co-exists with specialty shops in many another car care mall, leading to another theory: following its financial problems from taking Southland private this spring, the Thompson family might be having difficulty developing its car care mall subsidiary.

The rapidly booming quick lube field continues to attract the attention of some discounters and specialty chains.

Wal-Mart opted for a quick lube operation, rather than general automotive service, at its Hypermarket USA, opened last December outside Dallas.

OTASCO, Tulsa, Okla., is testing quick lube centers at about 20 of its 222 stores.

The latest to venture into the field is USA-1 Auto Parts, a 17-store, parts-only chain based in New York, which is preparing to add quick lube service at four or five of its larger stores.

Pickup trucks are becoming the "cheap" second, or even first car of the '80s. Light truck sales accounted for 31.2 percent, or 4.7 million, of the 14.9 million vehicles sold in the United States in 1987. In 1988, the percentage will increase to 34 percent, the Automotive Parts and Accessories Association predicted.

Youthful buyers—25 percent of whom are women—often economize with a basic pickup and then rush immediately into the aftermarket to customize them with, say, bed liners, running boards, sliding windows, tool boxes, and special lights and light bars. A substantial percentage spend $1,000 to $1,500 to set their pickups apart from others on the road, the Specialty Equipment Manufacturers Association reported.

With automobiles, aftermarket retailers normally have to wait four to six years for parts to wear out before they can count on big ticket aftermarket sales. Anything for light trucks sells, and wherever appropriate, manufacturers are taking pains to announce that existing automobile products also can be used on light trucks.

All of which helps explain why even chains such as Bradlees, with its soft goods emphasis, have expanded into pickup truck accessories over the past year. Another example: Harts places special emphasis on truck accessories in its new Big Bear Plus hypermarket that opened last month near Steubenville, Ohio.

In merchandising, tires are rolling along. Western Auto bought in rapid succession two tire specialty chains, Tire America and NTW, and now operates a total of 116 tire centers. Capitalizing on its tire expertise, Western Auto expanded last summer into a branded tire program that features virtually every major brand of tire, either in stock or as a special order. Before that, Western Auto offered only its private label program.

Following suit, Pep Boys—Manny, Moe & Jack, is slowly developing a branded tire program to complement its private label.

Converting Bays to Tire Service

In addition to Venture's use of closed service bays for tire service, Zayre converted most of its 108 automotive service centers—which it closed last summer—to tire service centers it calls Tire Slashers.

At membership warehouse clubs, which stock and move a tremendous volume of tires, tire mounting and balancing is the only automotive service offered, besides battery installation.

Full-line discount stores experienced gains in just about every area of productivity in their automotive departments last year.

Sales per store rose to $695,800 in 1987, from $678,000 the previous year; sales per square foot were up to $289.92 from $282.50; turns rose to 3.1 from 2.8; and gross margin climbed to 25.4 percent from 25.2 percent.

Automotives $10.1 Billion	
Full-Line Discounters	$5.7B
Catalogers	$0.1B
Specialty Discounters	$4.3B
Full-Line Discount Store Productivity	
Sales	$5.7B
Sales Per Store	$695,800
Dept. Size	2,400 Sq. Ft.
Sales Per Sq. Ft.	$289.92
Turns	3.1
Initial Markup	34.1%
Gross Margin	25.4%

Source: DSN research

DELUXE WIRE WHEEL COVERS
AUTO NOSE BRA

Full-line discount stores, like Gold Circle, experienced gains in just about every area of productivity in their automotive departments last year.

Light truck sales accounted for 31.2% of all car sales in 1987. Full-line discounters, automotive specialty chains and hypermarkets, like this new Big Bear Plus in Wintersville, Ohio, are capitalizing on this trend by offering a full range of accessories.

(DSN photos)

Toy Department Sales Remain Flat at $8.7B

Nationwide DSN Report

High toy prices and a dearth of star performers held sales at the 1986 level last year, $8.7 billion.

Two elements in the annual toy sales total did change, however. Full-line discounters garnered slightly less of the business in 1987 than they did the year before, and specialty discounters such as Toys "R" Us (TRU), got a little more of the annual toy sales total.

DSN research revealed that even with the sales decline, full-line discounters still captured more than half the total toy sales last year, $4.5 billion compared to $4.6 billion in 1986. Specialty discounters tallied $3.5 billion in toy sales in 1987, up from $3.4 billion a year ago. And toy sales at catalog showrooms held steady at $700 million.

And as an industry, discount retailers garnered a full two-thirds the total $12.5 billion retail toy business.

No Sales Growth

Within the discount store industry, however, toys was the only merchandise category of the 13 *DSN* surveyed reporting no sales growth at all between 1986 and 1987.

And of the seven productivity areas *DSN* used to evaluate the performance of the toy category only two, turns and initial markup, showed improvement over the 1986 survey.

Inventory Turns

Inventory turns for toys inched up one-tenth of one percent last year to three turns at full-line discounters. Initial markup rose two-tenths of one percent during the period, to 37.2 percent.

All the other indicators were down, according to *DSN* research.

Toys $8.7 Billion	
Full-Line Discounters	$4.5B
Catalogers	$0.7B
Specialty Discounters	$3.5B
Full-Line Discount Store Productivity	
Sales	$4.5B
Sales Per Store	$549,300
Dept. Size	2,500 Sq. Ft.
Sales Per Sq. Ft.	$219.72
Turns	3.0
Initial Markup	37.2%
Gross Margin	26.6%

Source: DSN research

Toy sales per store fell $17,700, or 3.2 percent, to $549,300. Sales per square foot dropped $1.76, to $219.72. And department size at full-line discounters shrunk by 60 square feet to 2,500 square feet in 1987.

Gross margins also fell, by 2.2 percent, to 26.6 percent.

Much of the sales decline in toys last year can probably be associated with two specific factors:

- Customers were unwilling to buy high-priced electronic toys and instead spent their money on lower-priced basic items such as non-talking, non-dancing plush bears, Tinker Toys and Lincoln Logs;
- Manufacturers failed to introduce any blockbuster, mega-hits last year.

The fallout is everywhere. Discounters like Hills reported it would be concentrating more on basic toy selections this year. And Best Products, a cataloger, last spring announced that it was cutting back on its toy department because of poor sales and an inability to adequately compete against the toy specialists. Instead, the cataloger will be emphasizing developmental toys.

Despite the many declines in the toy business last year, 1987 was not a complete wash out. Plush, ride-ons, games, activity toys and radio-controlled vehicles performed well last year, according to the Toy Manufacturers Association.

New, more sophisticated video games, especially Nintendo, are enjoying a renewed success. And retailers reported a surprisingly strong sales surge in the weeks leading up to last Christmas, TMA reported.

This year, the toy association expects to see good sales for learning games that use the family VCR; toys that involve sophisticated talking and movement mechanisms; and an increase in basic toys that provide children with opportunities for creative play.

Toys "R" Us, the largest toy specialty chain in the country, has reported it is having "a real bonanza" with video games. And analyst Daniel Barry of Kidder Peabody said the extra boost TRU is getting from the developing boom in video games should enable it to "report the biggest sales and earnings gain of any billion dollar retailer this year."

In addition, TRU is also engaged in a major expansion program that calls for 60 new North American stores, including such new markets as Kansas City, Mo., and Western Canada, plus 15 units overseas, including France—also a new market—and 35 new Kids "R" Us apparel stores.

By the end of this year, TRU will have 373 stores plus 107 Kids "R" Us units, 10 of which will be in new markets, including Southern California.

TRU is gaining market share at the rate of 2 percent a year, said Robert J. Schweich, analyst and managing partner of Wertheim Schroder, leading him to predict that TRU will control half of the U. S. toy market by about the year 2000.

But for 1988, the big question mark in toy retailing would have to be what strategies Peter Hayes, the new chief executive officer of Child World—formerly of Gold Circle—will initiate to help the nation's second largest chain recover from its aggressive price cutting program of last year.

In 1987, the price cutting strategy initiated by Child World in markets where it competes with TRU was a bruising battle for the No. 2 toy chain.

Now that Child World has called a truce, TRU is expected to be somewhat less sharp in pricing.

Despite the dominance of TRU, which claims a 20 percent market share, two chains went public last year. And both of them, Tons of Toys and Wisconsin Toys, are planning to carve out their own market niches and avoid head-to-head competition with TRU, the downfall of 35-unit St. Charles, Mo.-based Toys Plus, which filed Chapter 7 bankruptcy in January.

Tons of Toys, operating 15 stores from it Warehouse, Mass., headquarters, went public last May and plans to enter only secondary markets that are too small to attract TRU interest.

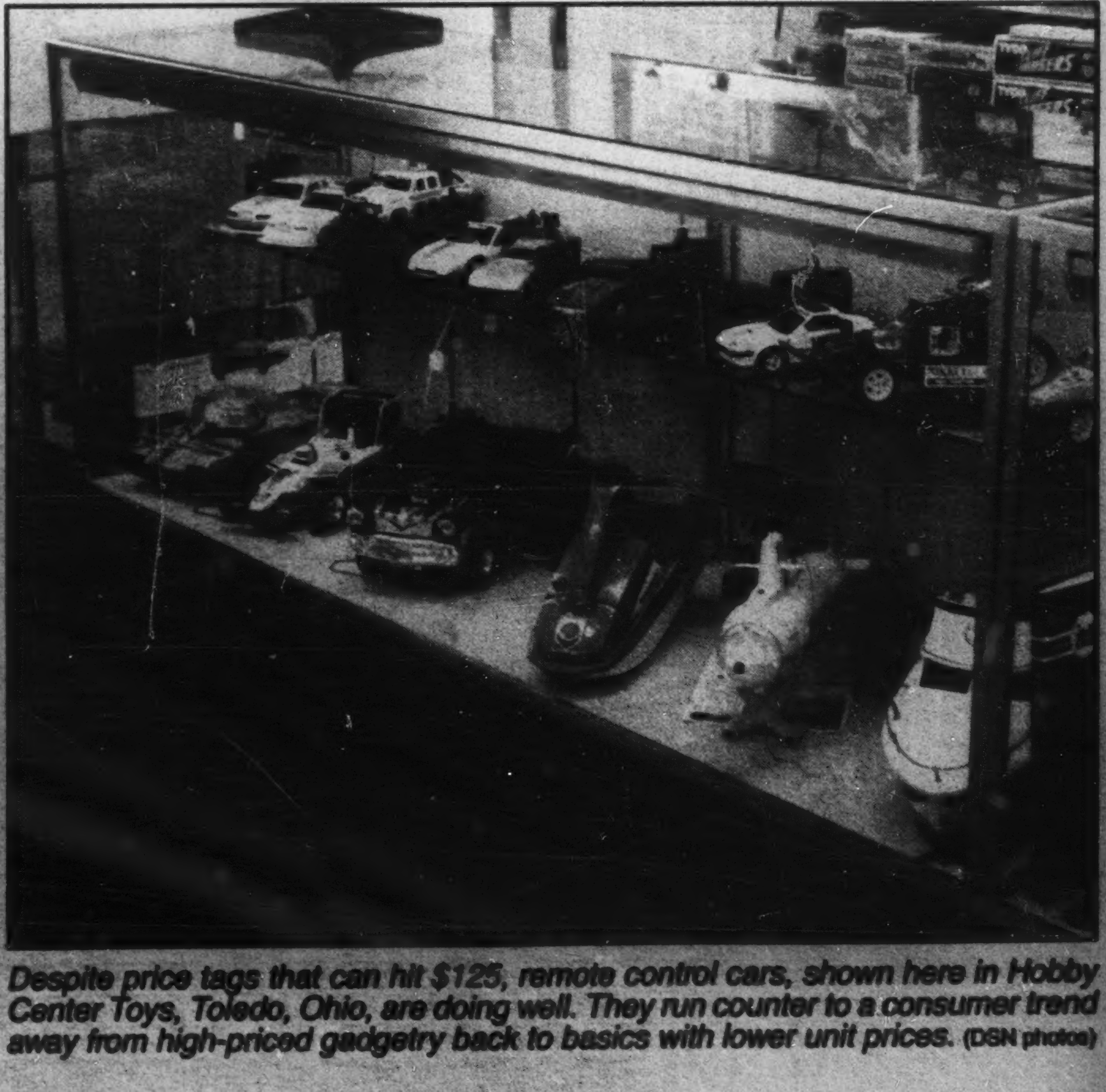
Wisconsin Toys, a toy wholesaler out of Milwaukee, also went public last June. The company has launched a closeout toy chain that operates primarily in outlet malls. Now operating 27 stores, it expects to be running 51 by year end.

New, more sophisticated video games, especially Nintendo, are enjoying a renewed success. This year, the toy association expects to see good sales for learning games that use the family VCR; toys that involve sophisticated talking and movement mechanisms; and an increase in basic toys that provide children with opportunities for creative play.

DSN research revealed that even with the sales decline, full-line discounters still captured more than half the total toy sales last year, $4.5 billion compared to $4.6 billion in 1986. Specialty discounters tallied $3.5 billion in toy sales in 1987, up from $3.4 billion a year ago. And toy sales at catalog showrooms held steady at $700 million. And as an industry, discount retailers garnered a full two-thirds the total $12.5 billion retail toy business.

Roller Racer

1987 was a year of flat toy sales, but toys such as ride-ons, as in this Detroit Meijer, are expected to do well as customers turn back to basic toys that stimulate a child's imaginative play.



Despite price tags that can hit $125, remote control cars, shown here in Hobby Center Toys, Toledo, Ohio, are doing well. They run counter to a consumer trend away from high-priced gadgetry back to basics with lower unit prices. (DSN photos)

Sales of Hardware Edge Up 2.9% for 1987

Nationwide DSN Report

Hardware sales rose modestly in 1987, reflecting the spotty success discounters were reporting all last year with the category.

Sales of hardware products rose a mere 2.9 percent in 1987, to $7 billion. Almost all of it, $6.9 billion, was rung up by full-line discount department stores. Only $100 million of the total was associated with catalogers.

The 2.9 percent increase in the hardware category was among the smallest gains of the 13 merchandise categories surveyed by *DSN*. Hardware products also produced the third-lowest turn rate among the other merchandise categories, 2.5 turns, the same as in 1986.

In addition, statistics on sales per square foot, gross margin and initial markup all declined between 1986 and 1987, reflecting the difficulty discounters are having with the category.

Sales per square foot fell 54 cents in 1987, to $187.16. Gross margins on hardware items dropped from 32.7 percent in 1986 to 32.4 percent in 1987. Initial markups declined to 41.6 percent from 41.8 percent in the year-earlier survey.

Despite all this, full-line discount stores collected a total of $842,200 per store in hardware sales, the fourth-largest sales department in the stores. That total was up 2 percent, or $16,300 per store from 1986. The actual size of the hardware department increased 100 square feet between 1986 and 1987, to 4,500 square feet.

Much of the sales and department size growth can be attributed to line extensions in a number of popular categories. Among them were home security items, basic hardware, cordless tools and assorted rechargeable items, and lawn and garden products, now the driving forces in the department.

Expanding the Selections

Throughout the year, discounters like K mart, Bradlees, Gold Circle and Quality Farm & Fleet, among others, reported they were expanding their selections in these key categories to both build and in some cases revive the hardware business in their stores.

In fact, Quality Farm & Fleet has decided to expand its entire hardware/home improvement department to tap the growing do-it-yourself business. In 1987, Quality began focusing attention on serving the "hot" kitchen and bathroom remodeling sector by offering products in these categories. "It's what customers are looking at," according to Cliff Cook, merchandise manager for Quality.

Hardware* $7.0 Billion	
Full-Line Discounters	$6.9B
Catalogers	$0.1B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$6.9B
Sales Per Store	$842,200
Dept. Size	4,500 Sq. Ft.
Sales Per Sq. Ft.	$187.16
Turns	2.5
Initial Markup	41.6%
Gross Margin	32.4%

**Includes paint*
NA—not available

Source: DSN *research*

Quality also looked at adding water filtration systems and other more traditional home center merchandise lines to its hardware department mix.

K mart, too, has expanded its selection of basic hardware and home improvement products, particularly in its 350 home care center departments, which feature greatly expanded hardware selections.

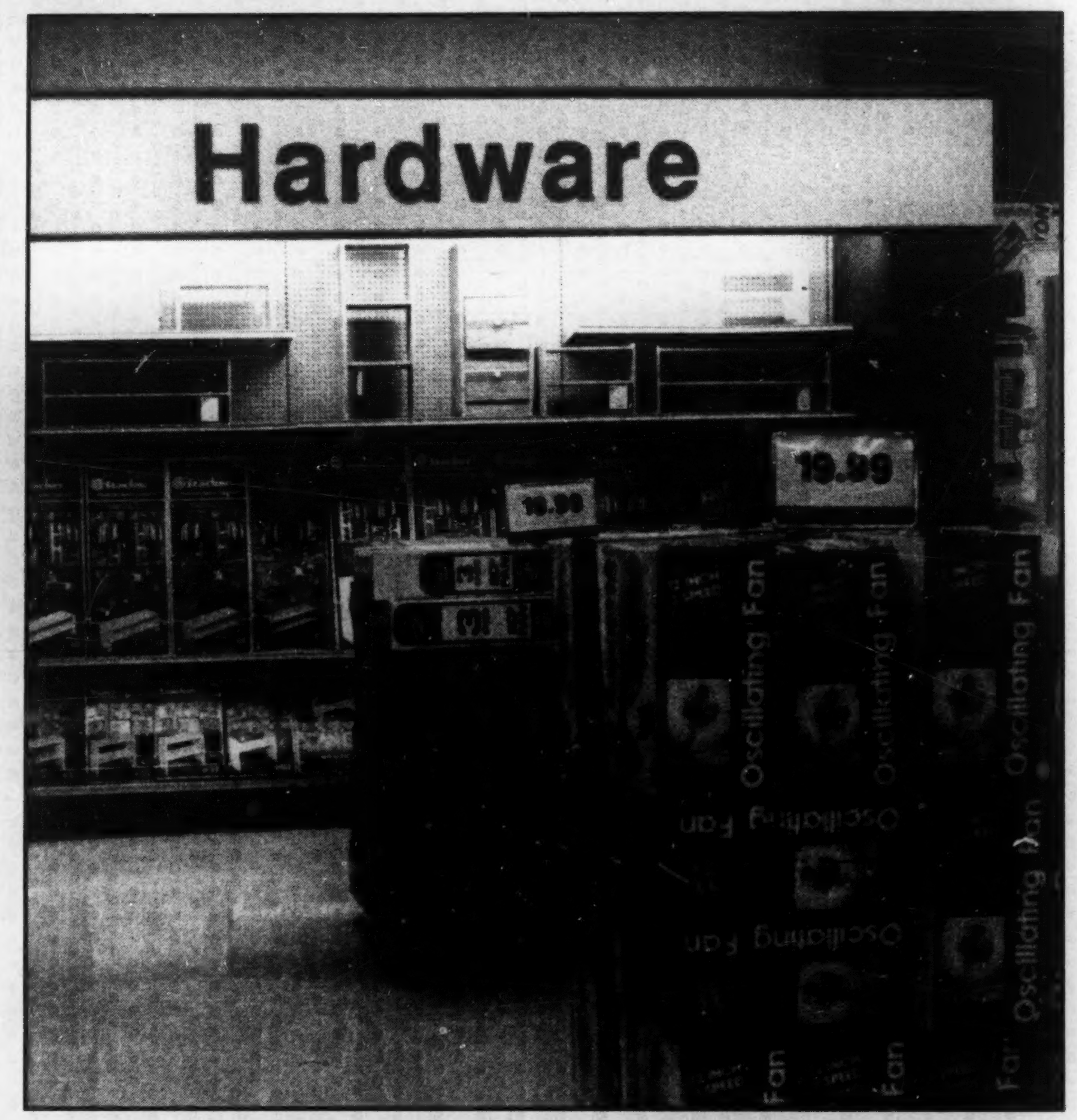
This year K mart plans to add another 50 home care centers for a total of 400 outlets. Roy Jones, buyer in charge of home care center projects, eventually sees a time when home care centers will be in half of K mart's stores.

The home care centers—15,000-square-foot departments containing about 1,200 sku's in the expanded format—were developed for K mart with the assistance of its home improvement division, Builders Square. They were designed to be a "destination department," Jones said.

K mart maintains two formats for the home care centers. The "expanded" version constitutes the thrust of the company's expansion program in this area.

This department features some building materials including dimensional lumber, an expanded line of kitchen cabinets and bathroom vanities, hardware, power tools, paint, electrical and plumbing products.

Many discounters are also tallying some significant sales gains with a somewhat new category of hardware items: tools and accessories in powder blue and pink that are marketed directly to women.



Despite modest hardware sales increases, full-line discount stores (such as this new Ames unit in Winsted, Conn.) collected a total of $842,200 per store in hardware sales, the fourth-largest sales department in the stores.

A number of manufacturers began producing such traditional hardware items as tool boxes and screwdrivers in these fashion colors as a way to enlarge the DIY population and generate sales. Companies such as Akro Mills, for example, touched off a series of new business opportunities for retailers when it introduced its Ms. Fixit line of pink and blue tool boxes. Other manufacturers quickly followed and new product introductions have been continuing.

Many more products aimed at developing a strong female DIY customer base will also come from redesigned tools more suited to women's hands and weight considerations.

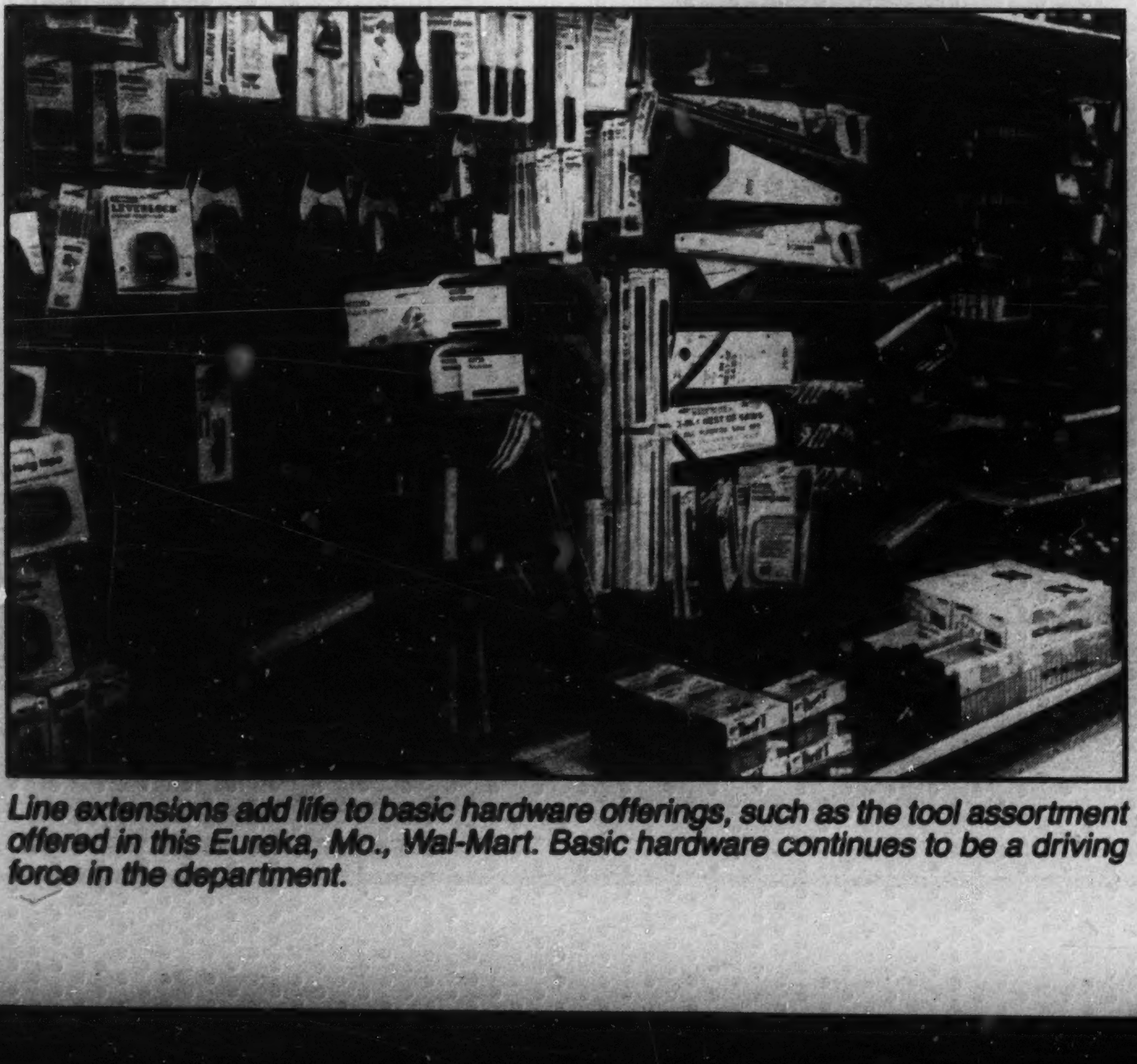
The hardware category, perhaps more than many others, enjoyed a year full of new product introductions. The new products primarily came in the home security area.

Among the new products Gold Circle recently added, for example, are four sku's in Stanley LightMaker controls and a "911 locator," a flashing light for houses that helps emergency vehicles find the correct location.

Quality Farm & Fleet added an expanded selection of door locks, a natural gas and propane detector and a radon detector.

Other recent new product introductions in the home security area include Keepsafer Compact and Key 'n' Keyless by Schlage. In the cordless tools category, two recent introductions include Black Decker's cordless power ratchet kit—slated for formal introduction at the August Hardware Show in Chicago—and Dremel's Freewheeler, a multipurpose cordless tool that can cut, grind, sand, saw and drill.

Some new basic hardware items include Stanley's Estimator, an ultrasonic measuring tool with a range of 30 feet; Auto-Test smoke alarm by Jameson Home Products; Light Test smoke alarm by First Alert; and Hang Fast by The Parker Group, an electric wall mounting system that hangs all kinds of household objects with pre-coated, hot-melt glue discs.



Line extensions add life to basic hardware offerings, such as the tool assortment offered in this Eureka, Mo., Wal-Mart. Basic hardware continues to be a driving force in the department.

Kmart Home Controls Safety, Security and Convenience in your home
Guardian

Buyers of home security products like these on display in K mart have a plethora of new products from which to choose. Locks, motion detectors, gas, propane and radon detectors, alarms and photoelectric lights head the list. (DSN photos)

‘Bigger Is Better’ in the Sporting Goods Arena

Sporting Goods: $6.3 Billion	
Full-Line Discounters	$4.0B
Catalogers	$0.6B
Specialty Discounters	$1.7B
Full-Line Discount Store Productivity	
Sales	$4.0B
Sales Per Store	$488,200
Dept. Size	2,500 Sq. Ft.
Sales Per Sq. Ft.	$195.28
Turns	2.2
Initial Markup	37.4%
Gross Margin	28.7%

Source: DSN *research*

Nationwide DSN Report

Discounters captured about a third, or $6.3 billion, of the sporting goods market in 1987, including $4 billion for full-line discounters, $600 million for catalog showrooms and $1.7 billion for specialty discounters.

“Bigger is better” is the key phrase for sporting goods retailing in 1988.

K mart is set to test a sporting goods membership warehouse called Sports Giant. In addition to offering broad and deep product lines, Sports Giant proposes to offer the service (such as racket restringing and ski-binding mounting) that keeps customers coming back to specialty shops.

Reflecting the popularity of golf, which enjoyed a 14 percent growth last year, K mart chairman Joseph Antonini has challenged his sporting goods merchandisers to make K mart No. 1 in golfing equipment, as it already is in such categories as fishing tackle and baseball.

K mart initially called its new venture Sports Club of America until All American SportsClub, Los Angeles, slipped into Chapter 11. In efforts to survive, SportsClub closed two of its eight California stores and scrapped plans to build four units in the Phoenix, Ariz. market.

The Sports Authority, Fort Lauderdale, Fla.; Sports Town, Atlanta; and Oshman’s new Super Sports stores also illustrate the trend toward opening sporting goods supermarkets that pack in every item chains can obtain.

Despite a cold spring that lapsed overnight into a drought-stricken summer, Americans are undergoing a sports revival.

Repetitive activities such as injury-prone jogging and weight lifting are cooling off, while active outdoors sports like softball, biking, fishing and hunting are booming.

At $1.8 billion in 1987 sales, rifles, handguns and hunting accessories remain the single largest category that the National Sporting Goods Association (NSGA) tracks. Rifle sales rose 7 percent last year, the first year of an increase following several years of declining sales.

Prices in many categories rose steeply last year, said Tom Doyle, research director for the NSGA. Unit volume of aerobic footwear, for instance, rose only 13 percent, while dollar volume jumped 21 percent.

An example of the trend: hiking boots increased 9 percent in units and 24 percent in dollars. Last year retailers sold 3.1 million pairs, at an average price of $48, for a total of $149.8 million. In 1986, 2.8 million pairs sold at an average price of $42.50 for a total of $120.6 million.

Multi-speed bicycles countered the trend, however, as sales declined and heavy imports pressured prices. Units slipped to 5.8 million in 1987 from 6.1 million in 1986; the average price dipped to $161 from $179.50, and dollar volume fell to $930 million from slightly more than $1 billion.

Import Prices Rising

Import prices are rising steeply in many categories, Doyle said, with some overseas manufacturers jacking up prices by 25 percent. The question remains as to how much of the increase retailers will pass on to consumers.

Illustrating the importance of brands in sporting goods, Sears, Roebuck & Co. has moved out of private labels into nationally branded goods, Doyle said.

Among full-line discounters, productivity gains were hard to come by in sporting goods. Sales per store declined from $493,000 in 1986 to $488,200 last year. Sales per square foot fell from $197.20 to $195.28. Turns and gross margin rose slightly to 2.2 and 28.7 percent, respectively.

Total industry sales growth in sporting goods ran 50 percent higher than projected last year.

In a commissioned survey, the NSGA projects that total sales of sporting goods and apparel rose 6 percent to $17.8 billion from $16.8 billion in 1986. The retailer trade association had projected a 4 percent growth rate, as it has for 1988. Sales this year are projected to reach $18.5 billion, the association reports.

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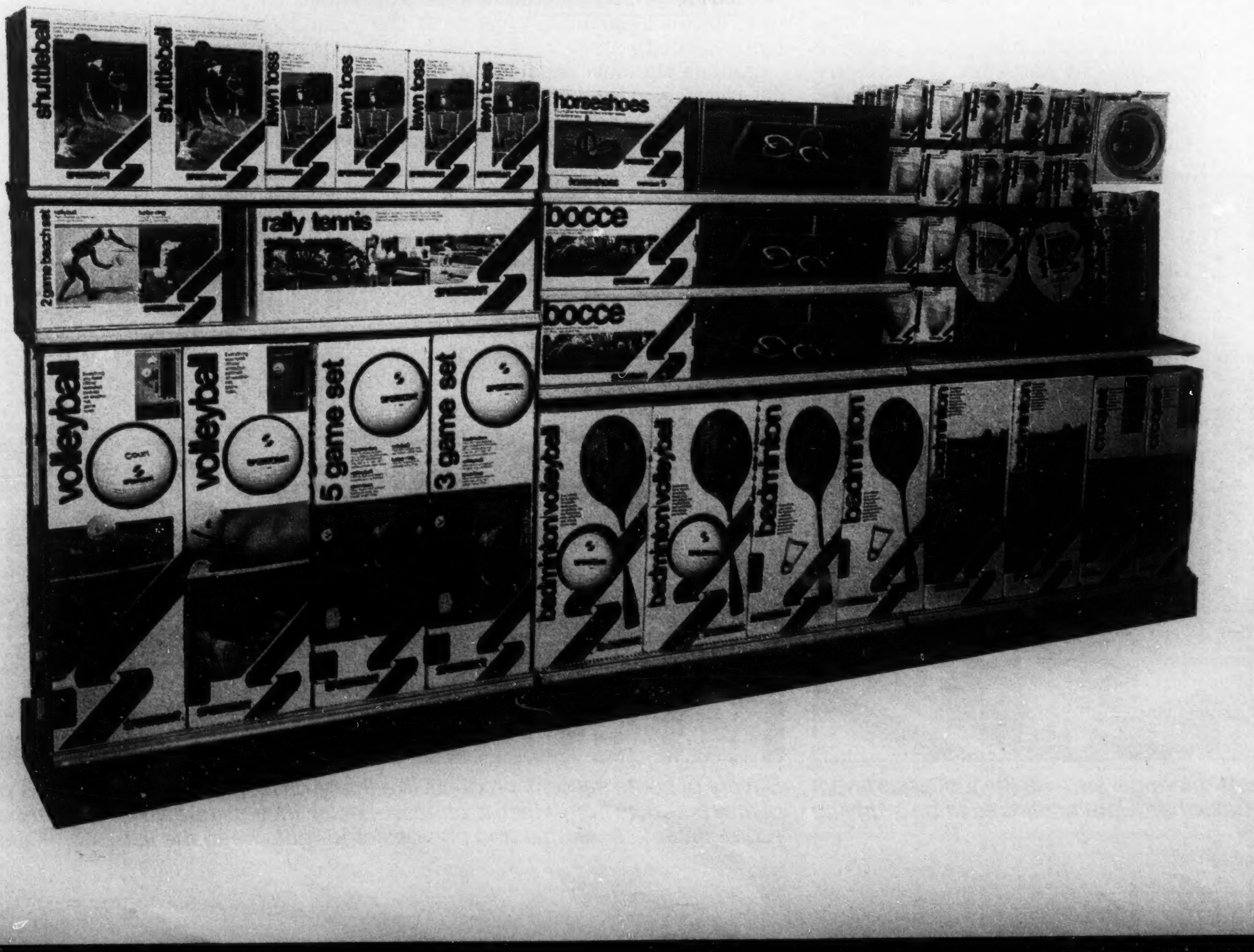

Discounters Enhance H&BA's Fashion Appeal

Health & Beauty Aids: $6.1 Billion	
Full-Line Discounters	$6.1B
Catalogers	NA
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$6.1B
Sales Per Store	$744,600
Dept. Size	3,200 Sq. Ft.
Sales Per Sq. Ft.	$232.69
Turns	5.0
Initial Markup	25.8%
Gross Margin	19.3%

NA—not available

Source: DSN *research*

Nationwide DSN Report

The health and beauty aids department is undergoing a metamorphosis at many discounters, as several chains have relocated a portion of the department to take better advantage of cross-merchandising opportunities.

K mart, Zayre, Caldor, Harts, Towers and Clover are among the chains that have transplanted a portion or all of their fragrances and cosmetics into an area of the store that enhances the new category's fashion appeal.

The merchandise that remains in the health and beauty aids department continues to undergo significant product changes as contraception, sun care and incontinence products become the sales generators of the '80s.

By extracting merchandise with higher margins from the notoriously low-margin, commodity-oriented health and beauty aids department, retailers have found a way to boost overall gross margin.

The close relationship between "fashion" and "high margins" has prompted retailers to position fragrances and cosmetics either in a boutique-like kiosk or near the watchful eye of the jewelry counter attendant. In either situation, the proximity of juniors' and women's apparel or accessories is considered critical.

The association of "prestige" fragrances and cosmetics to other fashion merchandise sets the stage for a non-commodity purchase, one on which the consumer is likely to spend more time and money.

In response to this trend, many manufacturers including Pavion, Coty and Aziza have designed new fixtures to enhance the glitzy, fashion-forward image that merchandisers are trying to promote.

K mart repositioned fragrances and cosmetics at the front of its stores, adjacent to jewelry and women's accessories. Buyer Leo Camara helped design new, highly-modular fixturing that would allow for open-stock as well as pegged merchandise to be displayed on an neon-lit, black lacquer wall.

Harts and Caldor moved fragrances and cosmetics to the front and center infield area of their stores, neighboring the accessories, jewelry and women's apparel departments in these two chains.

One of the most dramatic repositionings of the department was at the Halifax, Nova Scotia prototype store of Toronto-based Towers Department Stores. The discounter tiled the ceiling above the area with mirrors and lit the department with spotlights and illuminated photo panels.

The 'Boutique' Approach

If part of retailers' approach to "boutiquing" fragrances and cosmetics is to put the merchandise behind glass or otherwise removed from the consumer's reach, sales volume will no doubt be sacrificed, unless the department is well-staffed.

While less glamorous than fashion-oriented cosmetics and fragrances, contraceptive, incontinence and sun care products are spawning new business as health-related concerns escalate.

Contraceptive sales—especially of condoms—are mirroring the increased coverage of the AIDS epidemic.

Similarly, sun care products that are marketed as being formulated to prevent skin cancer and premature aging have also permanently changed the type of merchandise that will be the hot sellers in health and beauty aids.

Buyers said that non-protective formulas such as oils and other low SPFs (sun protection factor) still represent a large portion of sun care sales, but sales growth is coming from the higher SPF products.

Buyers said the sales potential of incontinence aids remained hidden until shelves were stocked with the product. Due to the sensitive nature of the product, most customers would go to a hospital supply store or other source rather than ask about its availability at a discount store. Once the merchandise was available, sales soared.

Discounters generated $6.1 billion in health and beauty aids sales last year, up $200 million from the previous year.

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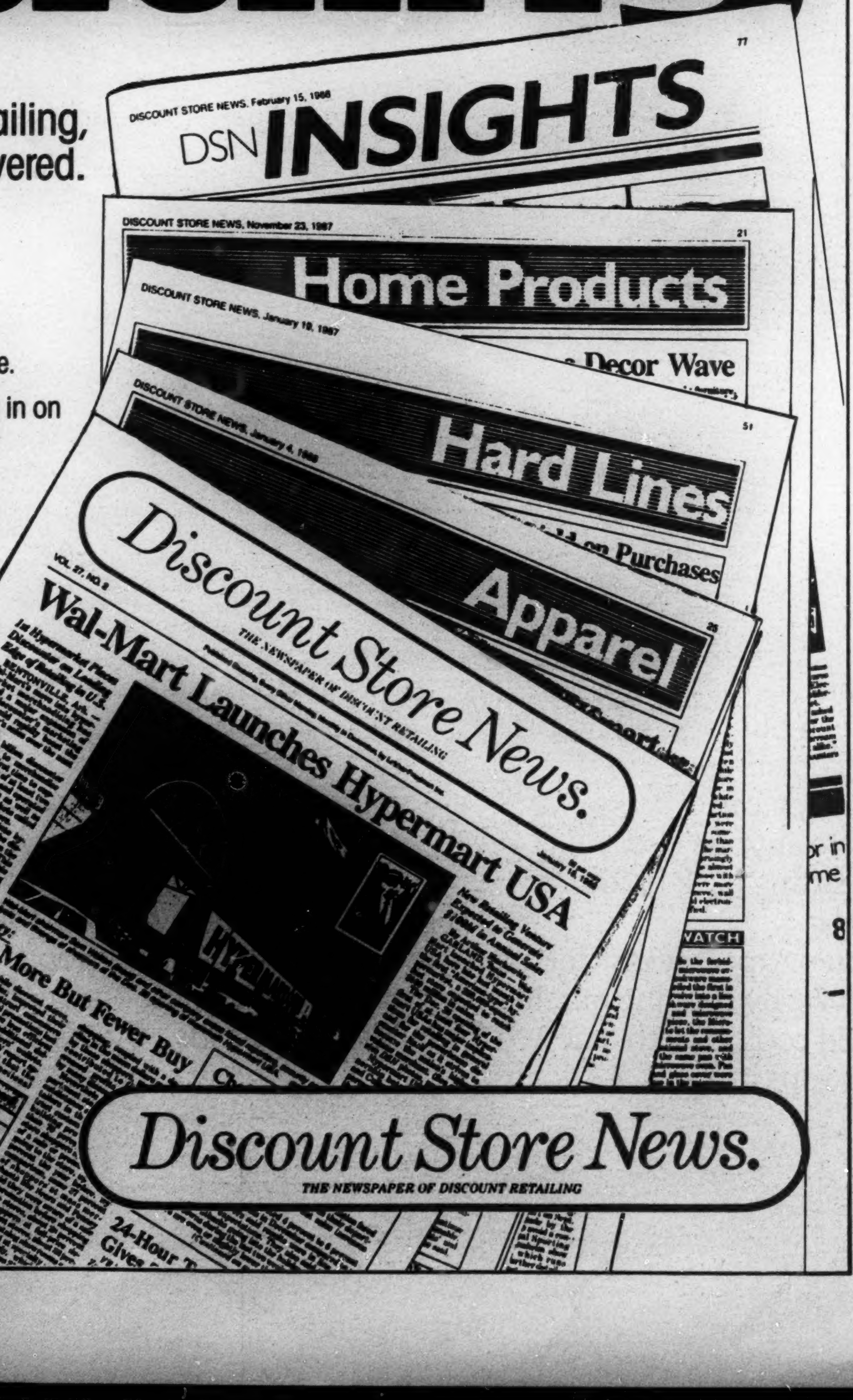
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Home Office Growth Yields Record Stationery Sales

Stationery: $2.7 Billion	
Full-Line Discounters	$2.7B
Catalogers	NA
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$2.7B
Sales Per Store	$329,500
Dept. Size	1,900 Sq. Ft.
Sales Per Sq. Ft.	$173.42
Turns	3.8
Initial Markup	47.2%
Gross Margin	42.2%
NA—not available	*Source:* DSN *research*

Nationwide DSN Report

Discounters charted a banner sales year for stationery products in 1987, setting several impressive records.

Annual sales for stationery products surged ahead 12.5 percent over 1986, to $2.7 billion last year, making it the fastest growing merchandise category at discount department stores in 1987, according to *DSN* sales projections for 13 merchandise categories, including apparel.

Compared to the other merchandise categories examined by *DSN* from ladies' wear to consumer electronics, stationery products produced the largest sales percentage gain last year, bypassing men's/boys' wear in second place with an 11.2 percent sales increase. In actual sales, however, stationery remains the smallest of the 13 categories.

Stationery also produced impressive results in inventory turns and gross margins, according to *DSN* research.

Inventory turns for stationery products rose from 3.5 turns in 1986 to 3.8 turns in 1987, making it the fourth-most frequently turning product category in full-line discount department stores. The only merchandise categories to surpass the inventory turning rate of stationery in the 1987 survey were health and beauty aids, ladies' wear and men's/boys' apparel.

And when it came to gross margins, stationery products ranked second of the 13 merchandise categories, behind only jewelry. Gross margins in the stationery department in 1987 averaged about 42.2 percent, an increase of 1.4 percentage points over 1986.

The 12.5 percent sales rise in stationery—which does not include sales at office products megastores—last year was fueled by consumers' voracious appetite for home office products and back-to-school accessories.

Full-line discounters continue to enjoy particularly good sales results from stationery products. Sales per store rose 11.4 percent last year, to $329,500. At the same time, full-line discounters recorded a $15.66 jump in sales per square foot, to $173.42.

Departments Grow in Size

Along with these rising sales figures was a growing stationery department. Retailers throughout the country expanded stationery departments last year—and continue to do so—reflecting the growing needs and demands of their customers in back-to-school and home office.

Discounters concentrated stationery department expansion in a few key areas: home office furniture, equipment, storage products, accessories and paper stationery products. These product line expansions helped swell the size of the average stationery area at full-line discount department stores by 25 square feet in 1987, to 1,900 square feet.

Particularly "hot" stationery items last year included file cabinets and other storage products, security boxes and safes, fashion-colored writing instruments, writing paper and envelopes.

Bulk-packaged paper stationery goods continue to gain momentum, a by-product of the rapidly expanding office products megastore concept, which is serving to expand the total stationery market.

Manufacturers are also working to expand the stationery market by upgrading packaging, product quality and merchandising displays, now geared more often to women, the primary purchasers of back-to-school and home office products.

The fashion trends in stationery products, about two years old, are stimulating sales in a number of sub-categories including paper products and writing instruments.

But color isn't the only fashion statement in the stationery category. More creative designs, graphics and product styles appeared on numerous back-to-school items.

And the growing demand for more upscale home/office stationery accessories by small business operators and home office users also is having a dramatic impact on business. These customers not only want up-to-date fashion and product styling, they want top quality merchandise and are willing to pay for it.

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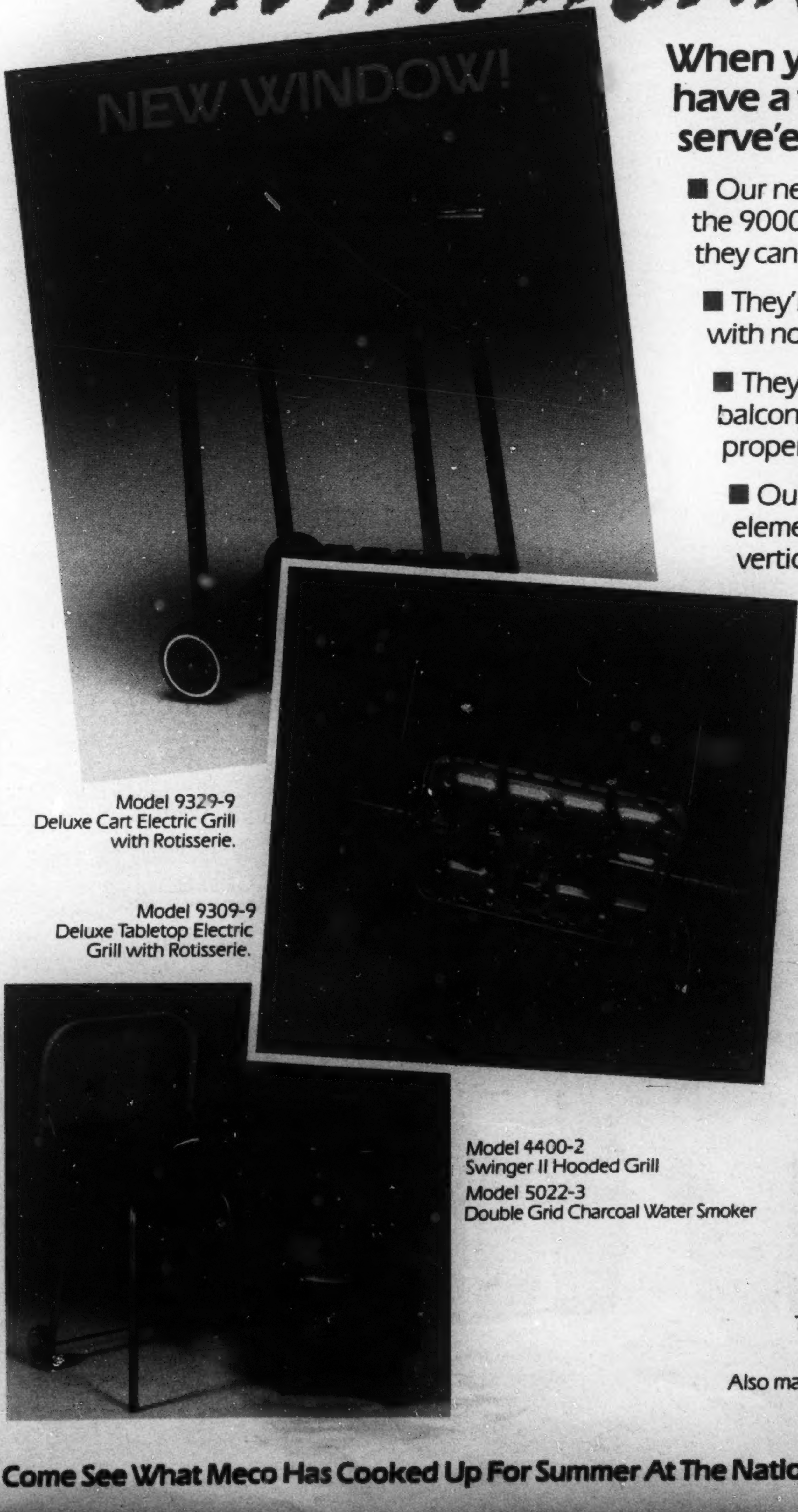

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Clubs, CE Chains Run Most Productive Stores

Nationwide DSN Report

Leading membership warehouse clubs and consumer electronics chains were the top performing retailers last year in terms of sales productivity, according to calculations based on *DSN*'s Top 100 list of leading discounters.

Membership clubs like Price Club, Makro, Sam's, Costco, BJ's and PACE led most other types of retailers with sales per store averages ranging from $29.4 million at PACE to $89.8 million—the highest among all discounters—at Price Club.

Consumer electronics chains—which generally operate smaller units selling relatively big ticket goods—were the champs at churning out the highest sales per square foot of selling space. Tops Appliances, The Wiz, Crazy Eddie, Highland, Best Buy, Silo, Newmark & Lewis, American TV and Circuit City all generated more than $500 per square foot, with Crazy Eddie ($937.50), The Wiz ($1,135.42) and Tops ($2,800) making the most productive use of their display space.

Average Square Foot Sales: $5.29M

Overall, the nation's Top 100 discounters generated average sales of $5.29 million per store last year—at an average of $161.54 per square foot.

Beside warehouse clubs, other store productivity powerhouses included Fedco, $58.3 million; Meijer, $47.9 million; and Ann & Hope, $43 million.

Other sales per square foot leaders included Price Club, $816.46; Filene's Basement, $505.45; Makro, $416.67; Meijer, $355; Lechmere, $331.25; Fedco, $324.07; Sam's, $322.74; Costco, $318.60; Herman's, $314.88; and BJ's, $302.63.

A close look at the sales productivity of the nation's leading discount chains reveals some interesting comparisons.

The three largest discounters in total sales—K mart, Wal-Mart and Target—exceeded the Top 100 average by a wide margin in sales per store. Target's per store sales productivity of $16.7 million and Wal-Mart's $11.9 million in sales per store more than doubled the Top 100 average, while K mart registered $10 million in per store sales.

In sales space productivity, Wal-Mart edged out Target, $169.89 to $167.38, according to *DSN* figures. K mart's selling space was slightly less productive, generating $146.46 per square foot.

Interestingly, Wal-Mart, considered by many as one of the leanest retailers in personnel, fell behind K mart by a slim margin in employee productivity: Wal-Mart posted $79,000 in sales per employee; K mart, $82,000.

Zayre, the nation's fourth-largest full-line discount department store chain, trailed the Big Three in both store and space productivity. Zayre posted per store sales of $8.6 million while garnering $117.98 per square foot of selling space.

Sam's Wholesale Club, which passed Price Club in units and is poised to surpass the industry pioneer in sales this year, still trails the venerable San Diego-based chain by a wide margin in productivity per unit. Individual Price Clubs generated an average of $89.8 million each, with sales per square foot of $816.46. Each Sam's produces an average $32.3 million in sales from $322.74 per square foot.

With the exception of Makro, which generated $75 million per store and $416.67 per square foot, other warehouse clubs more closely matched Sam's productivity figures than Price Club's.

Comparing the two top catalog showroom chains shows that Best Products generates higher per store sales than Service Merchandise—$10.7 million vs. $8.8—but fewer dollars per square foot—$163.92 vs. $175.91. Service appears to be leaner in personnel, with $136,000 in sales per employee compared to Best's $115,000 per employee.

Wide Range of Productivity

Productivity of full-line discount chains varied widely. Among the best performing were Fedco, $58.3 million per store, $324.07 per square foot; Meijer, with $47.9 million per store and $355 per square foot; and Ann & Hope, $43 million per store, $226.32 per square foot.

Other full-line discounters that generated more than $10 million in sales per store included: Fred Meyer, $18.7 million; Venture, $17.2 million; Swallen's, $16.3 million; Clover, $15.7 million; ShopKo, $14.7 million; Caldor and Gold Circle, both $12.9 million; Click, $12.4 million; Bradlees, $12.1 million; TSS-Seedman's, $10.5 million; and Rich's, $10.3 million.

In terms of sales by merchandise category, five of the nation's leading soft lines discount retailers are full-line stores. K mart, Wal-Mart, Target and Zayre each sell more soft lines goods than the two leading off-price apparel chains, TJX Cos. and Marshalls.

In hard goods, K mart more than justifies its claim as the nation's leading hard lines discounter, nearly doubling the sales of its closest rival Wal-Mart.

Sales Productivity of Top 100 Discount Chains

1987 Rank	Chain	Sales Per Store (In Millions)	Sales Per Square Foot	Sales Per Employee (In Thousands)
1	K mart	$ 10.0	$ 146.46	$ 82
2	Wal-Mart	11.9	169.89	79
3	Target	16.7	167.38	NA
4	Price Club	89.8	816.46	360
5	Zayre	8.6	117.98	NA
6	Toys "R" Us	7.4	160.84	96
7	Service Merchandise	8.8	175.99	136
8	Sam's	32.3	322.74	202
9	Meijer	47.9	355.00	88
10	Ames	4.3	66.58	NA
11	Best Products	10.7	163.92	115
12	Bradlees	12.1	172.35	94
13	Fred Meyer	18.7	177.78	109
14	TJX Cos.	2.2	174.71	NA
15	Marshalls	5.6	193.27	NA
16	Hills	10.0	125.33	69
17	Caldor	12.9	157.91	83
18	Costco	31.9	318.60	274
19	Circuit City	12.9	514.29	193
20	Rose's	5.6	134.32	73
21	Venture	17.2	190.79	127
22	Pay Less NW	4.6	164.84	NA
23	ShopKo	14.7	157.71	NA
24	Gold Circle	12.9	122.56	82
25	PACE	29.4	293.75	190
26	Western Auto	0.5	71.97	86
27	Herman's	3.1	314.88	89
28	Highland Superstores	10.5	697.22	NA
29	Silo	5.0	625.00	NA
30	Child World	4.9	136.88	142
31	Jamesway	6.3	108.88	NA
32	Fedco	58.3	324.07	108
33	Lechmere	26.5	331.25	127
34	Northern Automotive	1.2	225.02	125
35	Kay-Bee	0.9	257.82	NA
36	Dollar General	0.5	79.23	84
37	Ross Stores	4.4	162.85	116
38	BJ's Wholesale Club	30.3	302.63	NA
39	Consolidated Stores	1.9	80.65	61
40	Family Dollar	0.4	62.89	62
41	Pep Boys	2.7	148.68	77
42	Pamida	3.2	132.83	101
43	Alexander's	37.4	144.80	52
44	Thrifty Corp.	3.1	NA	NA
45	Burlington Coat	4.7	85.84	NA
46	Best Buy	11.0	645.59	129
47	The Federated Group	6.4	214.22	NA
48	Heck's	3.5	107.34	84
49	Click	12.4	NA	NA
50	AutoZone	0.9	169.31	63
51	Pic 'N' Save	2.9	120.67	91
52	Chief Auto	0.8	232.11	86
53	Lionel Leisure	4.4	47.42	38
54	Fisher's Big Wheel	3.9	85.57	67
55	Loehmann's	4.2	278.33	NA
56	Oshman's	1.6	156.34	83
57	Clover	15.7	172.68	NA
58	ALCO	2.3	75.11	82
59	Crazy Eddie	7.5	937.50	NA
60	Laneco	9.0	NA	NA
61	Value City	7.2	90.18	70
62	Makro	75.0	416.67	NA
63	Price Savers	25.0	250.00	NA
64	S.E. Nichols	6.7	88.22	80
65	Consumers Distributing (U.S.)	3.3	219.61	NA
66	Tops Appliances	140.0	2,800.00	NA
67	Filene's Basement	12.6	505.45	NA
68	OTASCO	1.2	177.76	98
69	The Wholesale Club	18.1	181.33	172
70	Ann & Hope	43.0	226.32	NA
71	Syms	14.2	283.33	NA
72	Fretter	5.3	NA	50
73	Newmark & Lewis	5.3	584.54	298
74	Bi-Mart	6.5	216.22	133
75	Nationwise	1.2	211.82	93
76	TSS-Seedman's	10.5	52.27	77
77	Brendle's	5.7	101.79	NA
78	Warehouse Club	19.0	190.00	182
79	The Wiz	9.1	1,135.42	NA
80	Rich's	10.3	172.22	72
81	Audio-Video Affiliates	1.8	90.60	NA
82	Sportmart	11.8	294.44	NA
83	Trak Auto	0.9	157.33	82
84	L. Luria & Son	4.8	238.37	77
85	American TV	33.2	552.78	NA
86	Harts	6.6	94.58	32
87	Clothestime	0.5	132.40	55
88	Dress Barn	0.6	143.21	NA
89	Grand Auto	1.6	181.34	82
90	Smitty's	8.5	85.26	25
91	Maxway	1.7	56.99	88
92	Gee Bee	7.4	106.12	52
93	Quality Stores	3.5	146.78	119
94	Whitlock	1.0	95.68	74
95	Greenman Bros.	0.5	134.51	NA
96	Prange Way	7.5	93.75	60
97	Yellow Front	0.9	72.61	60
98	Swallen's	16.3	204.17	134
99	K Merchandise	13.2	175.76	NA
100	Sky City	2.0	40.93	NA

Average Sales Per Store: $5.29 Million

Average Sales Per Square Foot: $161.54

NA—not available

Source: DSN research

1987 Discounter Sales by Merchandise Type

Soft Lines Sales Leaders: Chain	Sales (In Billions)	Hard Lines Sales Leaders: Chain	Sales (In Billions)
K mart	$7.7	K mart	$14.4
Wal-Mart	5.3	Wal-Mart	7.9
Target	2.1	Target	3.2
Zayre	1.8	Service Merchandise	2.7
TJX Cos.	1.6	Sam's Wholesale	2.4
Marshalls	1.6	Best Products	2.1
Bradlees	1.3	Zayre	1.5

Source: DSN research

Discount Stores by Region and State

Region/State	Full-Line Discounters	Catalog Showrooms	Membership Warehouse Clubs	Total
New England	466	66	12	544
Connecticut	96	12	0	108
Maine	54	6	0	60
Massachusetts	206	31	10	247
New Hampshire	62	12	1	75
Rhode Island	30	4	1	35
Vermont	18	1	0	19
South Atlantic	2,508	192	43	2,743
Delaware	41	4	0	45
Florida	595	86	18	699
Georgia	404	24	6	434
Maryland	129	22	7	158
North Carolina	527	16	5	548
South Carolina	249	10	3	262
Virginia	367	21	4	392
Washington D.C.	1	2	0	3
West Virginia	195	7	0	202
East North Central	1,448	127	33	1,608
Illinois	372	35	7	414
Indiana	202	21	6	229
Michigan	261	33	7	301
Ohio	478	37	11	526
Wisconsin	135	1	2	138
East South Central	1,255	49	15	1,319
Alabama	290	15	4	309
Kentucky	352	7	5	364
Mississippi	208	8	1	217
Tennessee	405	19	5	429
Middle Atlantic	601	216	15	832
New Jersey	98	43	3	144
New York	233	108	7	348
Pennsylvania	270	65	5	340
West South Central	1,115	90	42	1,247
Arkansas	197	6	3	206
Louisiana	249	13	7	269
Oklahoma	165	9	6	180
Texas	504	62	26	592
West North Central	740	37	32	809
Iowa	135	2	2	139
Kansas	158	7	5	170
Minnesota	119	6	8	133
Missouri	186	16	16	218
Nebraska	83	1	1	85
North Dakota	31	3	0	34
South Dakota	28	2	0	30
Mountain	477	50	17	544
Arizona	138	10	4	152
Colorado	121	15	8	144
Idaho	40	2	1	43
Montana	34	3	1	38
Nevada	17	2	2	21
New Mexico	53	11	1	65
Utah	40	5	0	45
Wyoming	34	2	0	36
Pacific	547	71	74	692
Alaska	4	2	2	8
California	443	50	56	549
Hawaii	8	0	1	9
Oregon	12	5	5	22
Washington	80	14	10	104
Total	**9,157**	**898**	**283**	**10,338**

Source: DSN research

The Discount Industry's Top 100 Chains

1987	1986	Chain	Code	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change	Earnings (Loss) 1987	Earnings (Loss) 1986	Percent Change	Number of Stores 1/88	Number of Stores 1/87	Number of Stores Proj. 12/88
1	1	**K mart,** Troy, Mich.	DDS	$22,140	$21,308	3.9%	$1,380.0	$1,310.0	5.3%	2,223	2,204	2,263
2	2	**Wal-Mart,** Bentonville, Ark.	DDS	13,248	10,200	29.9	1,067.0	846.0	26.1	1,114	980	1,239
3	3	**Target,** Minneapolis, Minn.	DDS	5,306	4,355	21.8	322.5	311.0	3.7	317	246	342
4	5	**Price Club,** San Diego, Calif.	CLUB	3,323	2,667	24.6	139.7	116.0	20.4	37	34	41
5	4	**Zayre,** Framingham, Mass.	DDS	3,290	3,046	8.0	(13.9)	129.9	—	382	362	394
6	7	**Toys "R" Us,**[1] Rochelle Park, N.J.	TOY	3,137	2,445	28.3	345.9	284.2	21.7	424	338	519
7	6	**Service Merchandise,** Nashville, Tenn.	CAT	2,719	2,527	7.6	44.4	(29.1)	—	309	300	317
8	11	**Sam's,** Bentonville, Ark.	CLUB	2,711	1,678	61.6	NA	NA	—	84	49	102
9	14	**Meijer,** Grand Rapids, Mich.	DDS	2,540	2,310	10.0	NA	NA	—	53	53	NA
10	10	**Ames,** Rocky Hill, Conn.	DDS	2,112	1,888	11.9	57.6	54.3	6.1	488	463	NA
11	8	**Best Products,** Richmond, Va.	CAT	2,067	2,142	(3.5)	47.6	(24.8)	—	194	194	194
12	9	**Bradlees,** Braintree, Mass.	DDS	2,063	1,873	10.1	56.9	56.6	0.5	171	162	110
13	20	**Fred Meyer,** Portland, Ore.	DDS	1,848	1,688	9.5	53.9	45.4	18.7	99	93	110
14	19	**TJX Cos.,**[2] Framingham, Mass.	APP	1,644	1,395	17.8	125.7	104.5	20.3	750	687	815
15	13	**Marshalls,** Wakefield, Mass.	APP	1,603	1,409	13.8	NA	NA	—	286	261	311
16	15	**Hills,** Canton, Mass.	DDS	1,514	1,343	12.7	33.8	(14.5)	—	151	136	167
17	12	**Caldor,** Norwalk, Conn.	DDS	1,502	1,348	11.4	56.0	70.0	(20.0)	116	115	119
18	25	**Costco,** Seattle, Wash.	CLUB	1,370	747	83.4	5.3	4.5	17.8	43	38	52
19	21	**Circuit City,** Richmond, Va.	CE	1,350	1,011	33.5	89.2	71.5	24.8	105	87	125
20	16	**Rose's,** Henderson, N.C.	DDS	1,337	1,199	11.5	31.6	43.6	(27.5)	237	222	256
21	18	**Venture,** O'Fallon, Mo.	DDS	1,202	1,122	7.1	70.0	80.0	(12.5)	70	65	74
22	17	**Pay Less NW,**[3] Wilsonville, Ore.	DRUG	1,200	1,100	9.1	65.0	NA	—	260	218	288
23	23	**ShopKo,** Green Bay, Wis.	DDS	1,100	940	17.0	61.0	53.5	14.0	75	65	87
24	22	**Gold Circle,** Worthington, Ohio	DDS	978	969	0.9	36.7	31.8	15.4	76	76	NA
25	31	**PACE,** Aurora, Colo.	CLUB	940	595	58.0	7.0	(1.2)	—	32	25	39
26	24	**Western Auto,** Kansas City, Mo.	AUTO	931	760	22.5	18.6	15.1	23.2	1,848	2,049	NA
27	28	**Herman's,** Carteret, N.J.	SPORT	762	630	21.0	NA	NA	—	242	200	268
28	26	**Highland Superstores,** Taylor, Mich.	CE	753	656	14.8	13.3	36.1	(63.2)	72	53	83
29	32	**Silo,** Philadelphia, Pa.	CE	750	600	25.0	NA	NA	—	150	119	210
30	29	**Child World,** Avon, Mass.	TOY	749	629	19.1	22.5	26.0	(13.5)	152	134	167
31	30	**Jamesway,** Secaucus, N.J.	DDS	701	612	14.5	11.6	12.1	(4.1)	111	101	123
32	27	**Fedco,** Santa Fe Springs, Calif.	DDS	700	650	7.7	NA	NA	—	12	9	12
33	43	**Lechmere,** Woburn, Mass.	DDS	636	476	33.6	22.7	17.0	33.5	24	17	27
34	NR	**Northern Automotive,**[4] Phoenix, Ariz.	AUTO	625	485	28.9	NA	NA	—	505	474	875
35	41	**Kay-Bee,** Pittsfield, Mass.	TOY	610	487	25.3	NA	NA	—	676	639	726
36	34	**Dollar General,** Scottsville, Ky.	DOLLAR	588	565	4.1	18.4	14.5	26.9	1,302	1,339	NA
37	35	**Ross Stores,** Newark, Calif.	APP	576	534	7.9	18.9	(45.5)	—	131	121	146
38	38	**BJ's Wholesale Club,** Natick, Mass.	CLUB	575	350	64.3	NA	NA	—	19	16	22
39	45	**Consolidated Stores,** Columbus, Ohio	CLOSE	571	397	43.8	22.8	36.6	(37.7)	295	219	325
40	40	**Family Dollar,** Charlotte, N.C.	DOLLAR	560	488	14.8	46.8	57.6	(18.8)	1,272	1,107	1,435
41	42	**Pep Boys,** Philadelphia, Pa.	AUTO	554	486	14.0	59.8	55.4	7.9	207	177	242
42	37	**Pamida,** Omaha, Neb.	DDS	526	504	4.4	1.7	NA	—	165	167	168
43	36	**Alexander's,** New York, N.Y.	DDS	523	520	0.6	1.3	4.1	(68.3)	14	14	13
44	81	**Thrifty Corp.,**[5] Los Angeles, Calif.	SPORT	494	359	37.6	NA	NA	—	160	149	NA
45	46	**Burlington Coat,** Burlington, N.J.	APP	491	391	25.6	20.3	17.3	17.3	104	87	125
46	72	**Best Buy,** Minneapolis, Minn.	CE	439	240	82.9	2.8	7.7	(63.6)	40	23	43
47	44	**The Federated Group,** City of Commerce, Calif.	CE	437	430	1.6	NA	(11.5)	—	68	65	61
48	33	**Heck's,** Nitro, W.Va.	DDS	418	565	(26.0)	(61.3)	(18.3)	—	118	172	78
49	NR	**Click,** Akron, Ohio	DDS	396	380	4.2	NA	NA	—	32	32	NA
50	47	**AutoZone,**[6] Memphis, Tenn.	AUTO	384	296	29.7	NA	NA	—	420	386	500
51	56	**Pic 'N' Save,** Carson, Calif.	CLOSE	362	304	19.1	85.7	80.0	7.1	125	101	150
52	65	**Chief Auto Parts,** Dallas, Texas	AUTO	360	256	40.6	NA	NA	—	470	485	492
53	62	**Lionel Leisure,** Philadelphia, Pa.	TOY	344	287	19.9	6.8	10.7	(36.4)	78	65	93
54	61	**Fisher's Big Wheel,** New Castle, Pa.	DDS	335	290	15.5	NA	NA	—	87	81	93
55	49	**Loehmann's,** Bronx, N.Y.	APP	334	323	3.4	NA	NA	—	80	90	86
56	53	**Oshman's,** Easton, Texas	SPORT	333	323	3.1	5.7	5.2	9.6	213	214	225
57	59	**Clover,** Philadelphia, Pa.	DDS	330	300	10.0	NA	NA	—	21	21	22
58	51	**ALCO,** Abilene, Kan.	DDS	329	344	(4.4)	NA	NA	—	146	148	151
59	48	**Crazy Eddie,** Edison, N.J.	CE	315	353	(10.8)	(109.0)	11.0	—	42	32	43
60	NR	**Laneco,** Palmer, Pa.	DDS	315	310	1.6	NA	NA	—	35	35	37
61	60	**Value City,** Columbus, Ohio	DDS	303	293	3.4	NA	NA	—	42	38	45
62	58	**Makro,** Cincinnati, Ohio	CLUB	300	300	0.0	NA	NA	—	4	4	6
63	57	**Price Savers,** Salt Lake City, Utah	CLUB	300	174	72.4	NA	NA	—	12	6	25
64	54	**S.E. Nichols,** New York, N.Y.	DDS	295	281	5.0	(4.8)	2.6	—	44	45	43
65	52	**Consumers Distributing (U.S.),** Edison, N.J.	CAT	280	328	(14.6)	NA	NA	—	85	90	88
66	64	**Tops Appliances,** Edison, N.J.	CE	280	260	7.7	NA	NA	—	2	2	2
67	67	**Filene's Basement,** Wellesley, Mass.	APP	278	248	12.1	NA	NA	—	22	22	22
68	55	**OTASCO,** Tulsa, Okla.	AUTO	275	309	(11.0)	NA	NA	—	221	575	227
69	90	**The Wholesale Club,** Indianapolis, Ind.	CLUB	272	158	72.2	1.5	1.8	(16.7)	15	11	18
70	69	**Ann & Hope,** Cumberland, R.I.	DDS	258	250	3.2	NA	NA	—	6	7	6
71	71	**Syms,** Lyndhurst, N.J.	APP	255	223	14.3	NA	NA	—	18	17	NA
72	63	**Fretter,** Livonia, Mich.	CE	250	273	(8.4)	1.4	4.0	(65.0)	47	45	53
73	76	**Newmark & Lewis,** Hicksville, N.Y.	CE	242	214	13.1	11.3	7.5	50.7	46	34	52
74	73	**Bi-Mart,** Eugene, Ore.	DDS	240	234	2.6	7.1	0.8	787.5	37	36	38
75	78	**Nationwise,**[7] Columbus, Ohio	AUTO	233	200	16.5	NA	NA	—	200	174	300
76	68	**TSS-Seedman's,** Brooklyn, N.Y.	DDS	230	230	0.0	NA	NA	—	22	18	22
77	77	**Brendle's,** Elkin, N.C.	CAT	228	211	8.1	6.8	13.1	(48.1)	40	35	43
78	91	**Warehouse Club,** Niles, Ill.	CLUB	228	157	45.2	NA	NA	—	12	14	12
79	80	**The Wiz,** New York, N.Y.	CE	218	200	9.0	NA	NA	—	24	19	26
80	83	**Rich's,** Salem, Mass.	DDS	217	184	17.9	6.0	6.0	0.0	21	19	21
81	74	**Audio-Video Affiliates,** Dayton, Ohio	CE	212	229	(7.4)	3.9	8.0	(51.3)	117	106	125
82	98	**Sportmart,** Niles, Ill.	SPORT	212	141	50.4	NA	NA	—	18	12	23
83	84	**Trak Auto,** Landover, Md.	AUTO	212	183	15.8	1.3	7.0	(81.4)	245	245	
84	NR	**L. Luria & Son.,** Miami Lakes, Fla.	CAT	205	172	19.2	11.3	7.9	43.0	43	39	47
85	89	**American TV,** Madison, Wis.	CE	199	160	24.4	NA	NA	—	6	6	7
86	82	**Harts,** Columbus, Ohio	DDS	192	187	2.7	9.1	9.2	(1.1)	29	28	NA
87	88	**Clothestime,** Anaheim, Calif.	APP	179	161	11.2	11.5	23.9	(51.9)	338	263	340
88	85	**Dress Barn,** Stamford, Conn.	APP	173	135	28.1	NA	NA	—	302	235	365
89	86	**Grand Auto,** Oakland, Calif.	AUTO	173	166	4.2	5.7	1.4	307.1	106	121	112
90	96	**Smitty's,** Phoenix, Ariz.	DDS	162	145	11.7	NA	NA	—	19	15	21
91	NR	**Maxway,**[8] Sanford, N.C.	DDS	159	241	(34.0)	(4.4)	(18.1)	—	93	75	93
92	87	**Gee Bee,** Johnstown, Pa.	DDS	156	150	4.0	1.7	4.4	(61.4)	21	67	23
93	95	**Quality Stores,** N. Muskegon, Mich.	DDS	155	148	4.7	NA	NA	—	44	42	51
94	94	**Whitlock,** Des Plaines, Ill.	AUTO	155	139	11.5	NA	NA	—	162	177	170
95	93	**Greenman Bros.,** Farmingdale, N.Y.	TOY	153	154	(0.6)	(6.9)	(6.4)	—	325	310	325
96	99	**Prange Way,** Green Bay, Wis.	DDS	150	140	7.1	NA	NA	—	20	20	22
97	NR	**Yellow Front,** Phoenix, Ariz.	DDS	149	145	2.8	9.3	8.9	4.5	171	106	180
98	NR	**Swallen's,** Cincinnati, Ohio	DDS	147	134	9.7	NA	0.8	—	9		9
99	NR	**K Merchandise,** Decatur, Ill.	CAT	145	140	3.6	NA	NA	—	11	11	
100	NR	**Sky City,** Asheville, N.C.	DDS	145	125	16.0	NA	NA	—	72	73	NA

NA-not available
NR-not ranked
Some percentages are based on actual numbers before rounding.
Sales: total store volume from apparel, general merchandise and grocery.
Discount store sales only: K mart, Wal-Mart, Zayre.
Earnings: profit/loss from continuing operations, before income taxes and extraordinary items (except where chains only report net earnings).

[1] *Toys "R" Us includes Kids "R" Us.*

[2] *TJX Cos. includes T.J. Maxx, Hit or Miss and Chadwick's of Boston chains.*

[3] *Pay Less NW included on basis of toy, general merchandise and apparel sales.*

[4] *Northern Automotive includes Schuck's, Checker, Kragen, Auto Works, Crown and U-Save chains.*

[5] *Thrifty Corp. includes Big Five, Dave Cook, Gart Bros., Michigan Sporting Goods and Casey's Sporting Goods chains.*

[6] *AutoZone was formerly AutoShack.*

[7] *Nationwise acquired Guarantee Auto in February 1988.*

[8] *Maxway purchased 35 Danners stores in April 1987, kept 18 and sold 17 to Consolidated Stores.*

Source: DSN research

Tough Competition Knocks Venture from Top 20

Venture

	1987	1986	% Change
Sales (In Millions)	$1,202	$1,122	7.1%
Earnings (In Millions)	70.0	80.0	(12.5)
Stores	70	65	7.7

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.

Source: DSN research

O'FALLON, Mo. — Buffeted by tough Midwest competition, Venture saw its operating income sag 12.5 percent last year on a modest 7.1 percent sales growth. 1987 sales of $1.2 billion caused Venture to slip out of the top 20 rankings on *DSN*'s list of leading discount chains.

Earnings slipped to $70 million in 1987, from $80 million in 1986 and same store sales gained 0.9 percent.

Venture attributed the $10 million decline in operating earnings to a change in LIFO inventory accounting.

Return on sales slipped to 5.8 percent last year from a robust 7.2 percent in 1986. Venture's return on beginning net assets fell to 19.1 percent from 23.6 percent in 1986.

"We deployed a significant amount of Venture's organizational bench strength to Caldor," said parent May Company. Last year May was "able to replenish the organization in a qualitative manner."

In the case of its executive vice president, Marc I. Balmuth, lost to Caldor in February 1987, where he became president, it took May almost a year to replace him with Richard Rein. Effective Jan. 25, May transferred Rein from Macy's California, where he was senior vice president and general merchandise manager. He serves as executive vp, hard lines at Venture.

At the same time, May brought back Maxine Clark as executive vp, soft lines. Previously an executive vp at Venture, Clark left in 1985 for May's Famous-Barr department store division and most recently was at Lerner as vice president and gmm.

In expansion last year, Venture opened six of its new size stores, 80,000 square feet, and closed one of its 105,000-square-foot stores, for a net gain of five. It ended the year with 70 stores in seven states.

In March, it opened two of four stores planned for this year—in Bridgeview and Belleville, Ill. The other two are slated to open later this month in South Bend, Ind.

In an effort to improve sales per square foot and cut store operating costs, Venture is whacking the size of its stores. Five years ago, Venture was building 116,000-square-foot stores. It built some at 100,000 square feet and 90,000 square feet before settling on an 80,000-square-foot prototype.

Smaller Stores Experiment

In an experiment, Venture opened a 65,000-square-foot store last July in Oklahoma City. Venture added spines to gondolas to push displays to 84 inches high from its traditional range of 54 inches to 66 inches. Above the 84-inch mark, Venture stores goods, allowing smaller units to offer the same assortment of goods, even if in smaller quantities.

The chain is also hoping that the smaller prototype will enable it to compete in smaller markets as well as improving sales per square foot.

In a merchandising step, Venture closed all of its remaining auto service centers, starting with 20 in the Chicago market last August, and the balance of 25 in February.

The service centers were profitable, said a former Venture auto service executive. "But the May Company is soft lines oriented, and the return on auto service isn't proportionate to that on soft lines."

Moreover, Venture president Julian Seeherman is "a big idea man. Auto service was just a small part of Venture's business, and [he] won't put a lot of emphasis on a small part," the source said.

To use the service bay space in about 27 stores, Venture has been leasing it to various tire centers. In several stores where leases were expiring, Venture let the space revert to the landlord.

On the technological front, Venture has gone chainwide with scanning, a move it began in mid-1987.

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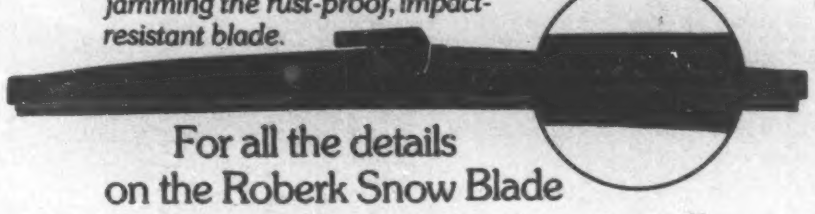
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ANNUAL REPORT: PART II PAY LESS NW

Pay Less Changes Mix, Closes Wonder World Units

WILSONVILLE, Ore. — K mart's super drug store operation, Pay Less NW, has spent the first half of 1988 realigning its merchandise mix, while also ceasing operation of the variety discount chain Wonder World.

Many of the merchandising changes were first made available when Pay Less told vendors this spring that it was cutting back on its grocery selection. Deciding supermarket competition in the category was too intense and that it could make better use of the space; items like cake mixes, canned goods and cereals were eliminated.

28 Feet to 30 Feet of Additional Space

Although 253-store Pay Less is waiting for its warehouse food supply to be depleted by sometime this August, the elimination of the items is expected to eventually present each store with additional 28-foot to 30-foot runs plus promotional space.

This new-found space will benefit several areas, including greeting cards, stationery and home office.

The strength of apparel in some of the larger Pay Less stores has prodded the chain to also expand this category wherever possible. Apparel experience has also presented the chain with additional merchandising knowledge, prompting Pay Less to bring in new lines of tote bags and backpacks for back-to-school.

Pay Less is also looking to tailor its merchandise mix for individual regions. Part of the ability to do this has come from the implementation of a point-of-sale system, which also helps to better control inventories. Currently Pay Less is receiving scanner information from 25 percent of its stores.

However, much of the chain's emphasis is on its core drug store business. Although Pay Less is heavy in general merchandise, the chain is following an industry trend by placing greater emphasis on the pharmacy and basic drug products.

While some changes are already taking place, the chain does not expect total store realignments to be completed until late this year or early next year.

But major moves have already been made with Pay Less' Wonder World stores. First begun in mid-1986, Wonder World was built on Pay Less' Value Giant concept, and then expanded by using former TG&Y and small K mart locations. It was the parent company, in fact, who strongly backed the Wonder Worlds since it presented K mart with yet another specialty unit to explore.

However, after peaking at 16 units last year, Wonder World's count slowly began to dissipate, as first the initial store in Bozeman, Montana was converted to a Pay Less and then the remaining stores had their merchandise mix changed to replicate Pay Less.

The Final Step

The final step was taken this year when Pay Less closed the too-distant Wonder Worlds in Oklahoma and Texas, and the others were officially made into Pay Less stores.

Despite the failure of Wonder World, Pay Less' growth plans remain undaunted, as the chain looks to become the largest drug store operator on the West Coast. Last year, K mart called for Pay Less to double in size, surpassing 500 stores, by 1991.

However, since this goal was set, two prime West Coast competitors became one when Thrfity Drug stores acquired Pay 'n Save. These two retail operations present a combined total of 750 locations on the West Coast.

Pay Less' current plans call for the opening of at least 30 stores this year. In 1987 Pay Less opened 47 stores, with part of this increase coming from the acquisition of 24 Osco drug stores.

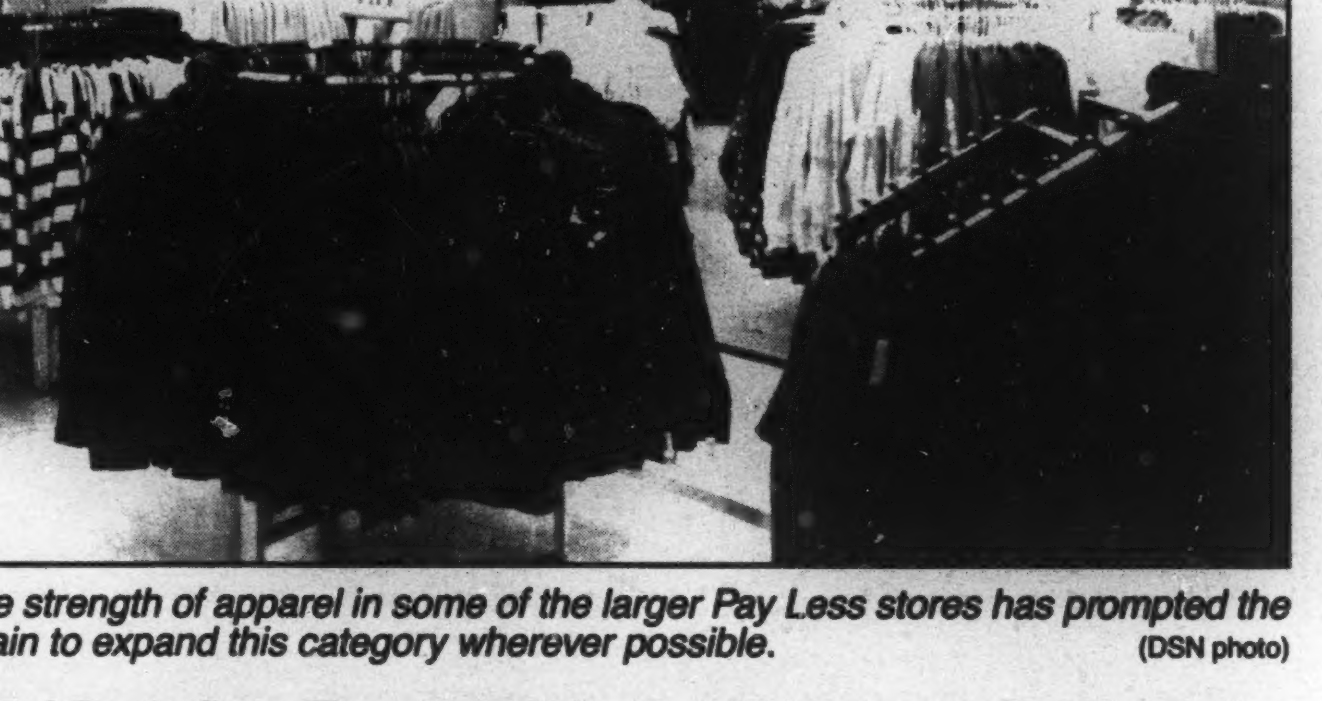
Acquisitions may continue to be a key growth vehicle for the chain as was evidenced this year by the move to pick up two Longs drug store locations.

While Pay Less is operating in nine Western states, much of its future growth is planned for its largest market—California.

Pay Less NW

	1987	1986	% Change
Sales (In Millions)	$1,200	$1,100	9.1%
Earnings (In Millions)	65.0	NA	—
Stores	260	218	19.3

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.
NA—not available
Source: DSN research



The strength of apparel in some of the larger Pay Less stores has prompted the chain to expand this category wherever possible. (DSN photo)

ANNUAL REPORT: PART II SHOPKO

ShopKo Continues Expansion, Enters New Markets

GREEN BAY, Wis. — ShopKo is set to enter yet another new market this year, while also looking to build on its $1.1 billion sales mark achieved in fiscal 1988.

Not only did sales reach the noteworthy level through a 17 percent increase, but operating earnings also escalated some 14 percent to $61 million, for the year ended Feb. 27, 1988.

ShopKo's results were considered to be of "stellar performance" by its parent company Minneapolis-based Super Valu. In fact, the parent company said in its annual report: "We're very pleased with ShopKo's achievements to date; they clearly warrant continued investment."

The 75-store chain is already slated by its parent to be the beneficiary of $152.2 million in capital investment during fiscal 1989—representing over 40 percent of Super Valu's total $377.5 million capital budget.

12 New Units This Year

Much of this capital contribution is being funneled toward ShopKo's plans to open 12 new stores this year.

Playing a major role in the growth will be a new Utah market. Slated for fall openings are four stores in Salt Lake City and one each in Layton, Ogden and Orem-Provo.

In its usual style, ShopKo is already starting to inundate its new market with publicity, by first playing up the number of local employees to be hired by the stores. And if the chain continues its typical advertising style, local papers, television and radio stations will be filled with an onslaught of ShopKo advertisements aimed directly at its new market just prior to the grand opening.

Here, as in all new markets, ShopKo has devoted extensive research into the region by looking at the consumers, competitors and economic outlook. "Marketing research also continues after the store is open, helping to insure we're in touch with consumers," said firm president William Tyrrell.

During the past year, ShopKo remodeled five stores, relocated one and added 10 new locations. New territories reached in fiscal 1988 included Nevada and the state of Washington.

As ShopKo moves further west it finds itself up against a major force in the Pacific Northwest—Fred Meyer. With new stores running twice the size of the average 93,000-square-foot ShopKo, Fred Meyer is a formidable competitor. However, ShopKo more closely resembles Target, which will also be making a bid for parts of the Pacific Northwest this year.

To help find its niche among the competition, ShopKo gives store managers the authority to customize the merchandise mix and promotions geared around the local needs of each community. "Once an area is deemed viable for growth and a store is built, ShopKo's decentralized management plays a critical role in the store's success," explained Tyrrell.

Keeping Pace with Industry Leaders

ShopKo is also keeping pace with the industry leaders by continuing to implement its point-of-sale scanner system. The chain expects all stores to be operating on the program by May of next year. Computerization has also made its way into ShopKo's in-store sign making, energy management and electronic mail.

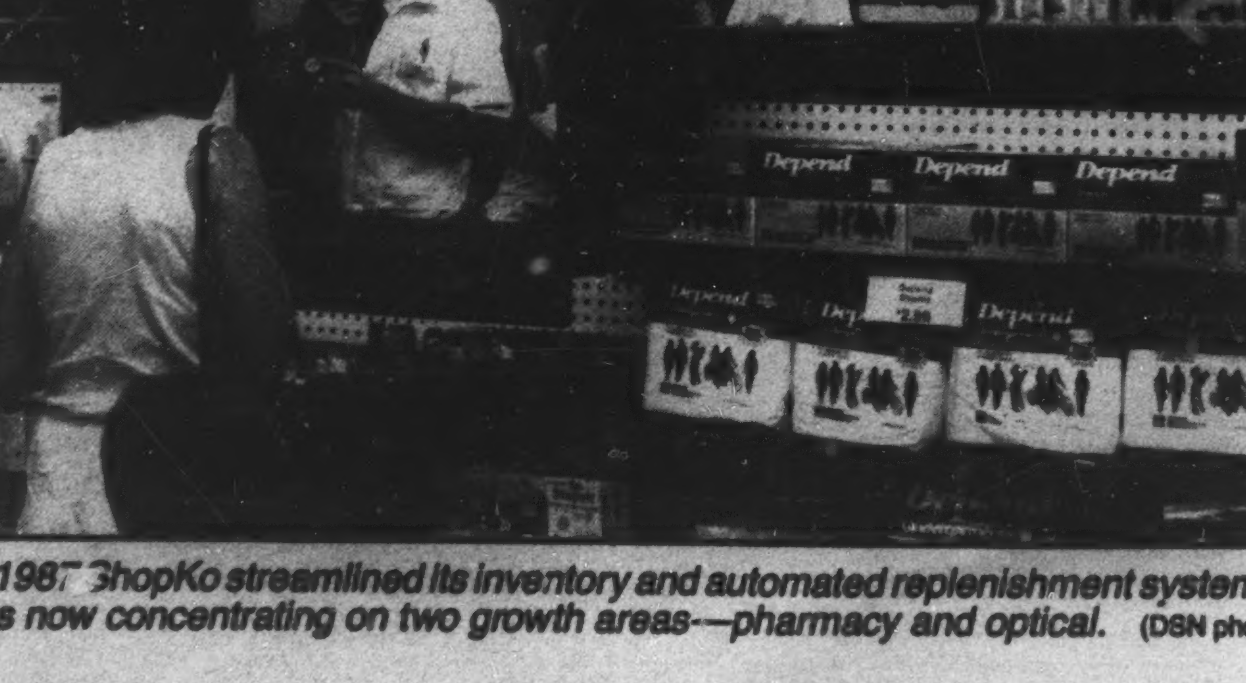
While a streamlined inventory system and an automated distribution network have also been implemented by ShopKo, the chain is also concentrating on two growth areas within the store—pharmacy and optical.

The success of ShopKo's pharmacy—first started in 1972 and now in 68 stores—prompted the chain to open an optical department in '78. Expansion has placed optical in 59 stores.

ShopKo

	1987	1986	% Change
Sales (In Millions)	$1,100	$940	17.0%
Earnings (In Millions)	61.0	53.5	14.0
Stores	75	65	15.4

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.
Source: DSN research



In 1987 ShopKo streamlined its inventory and automated replenishment systems. It is now concentrating on two growth areas—pharmacy and optical. (DSN photo)

Gold Circle Rebounds But Future Remains Cloudy

WORTHINGTON, Ohio — After a year in which profits took a decided upswing, the future of the 21-year-old Gold Circle discount store chain remains uncertain.

The acquisition of Gold Circle's parent, Federated Department Stores, by Toronto-based Campeau Corp., at the start of 1988, threw a monkey wrench into what was a successful turnaround effort during the 1987 fiscal year.

While the battle between Campeau and New York-based R.H. Macy for control of Federated was still being fought, Campeau announced that the sale of Gold Circle and several other divisions would be among its future plans for Federated if it succeeded in acquiring the diversified retailer.

Three possible scenarios for the chain include: a management-led leveraged buyout; the sale of individual store locations to chains such as Hills, Wal-Mart, Harts and Target; and the sale of the chain to a new parent company, though this last possibility is considered by industry and Gold Circle sources to be the least likely occurrence.

Gold Circle's operating profits rose $5 million to $36.7 million during fiscal 1987. This jump occurred after a year in which profits had dropped $7 million. During 1986, profits were negatively impacted by LIFO charges, as well as expenses occurred through the 1985 acquisition of Atlanta-based Richway stores.

Chainwide Remodeling

Factors that played a role in the 1987 profits increase of the 76-unit discounter included the chainwide remodeling program (facilitated by a doubling of Federated Department Stores' capital expenditures for the Gold Circle chain) and a higher proportion of sales arising from soft lines departments.

Sales, which had dropped 8 percent from 1985 to 1986, also showed a turnaround. While sales did not show the same vigor as profits, volume did rise one percentage point during fiscal 1987.

Robert Glass, company president and leader of the proposed leveraged buyout of Gold Circle, said total sales during the year were lackluster due to an industrywide slump in the apparel business during 1987. Much of the apparel market experienced below expected sales levels, especially in women's apparel during the second half of the year, according to industry sources.

Glass' undisclosed LBO offer to Campeau hinges on whether any higher offers for the Gold Circle chain or individual stores is presented to Campeau. Should he succeed in the LBO, Glass will guide the chain's destiny, following the resignation of Gold Circle chairman, Peter Hayes; vice president, general merchandise manager, Steve Fishman, and over half a dozen headquarter merchandisers.

A profitable direction for the chain was initiated during 1987 when the chain reworked its merchandising approach.

The shift to a 45 percent/65 percent hard goods/soft goods assortment in remodeled stores spurred total store sales levels at retrofitted units by about 20 percent. The new racetrack design more than offset the impact of reduced space in hard lines by giving departments such as health and beauty aids and consumer electronics greater visibility and accessibility.

Last year the chain also renewed its commitment to fashion-oriented home lines departments by adhering to a color pallet throughout all related merchandise categories. The established color theme was developed to insure that curtain patterns matched with bath mats, coordinated with lamp shades and generally complemented other merchandise.

Gold Circle

	1987	1986	% Change
Sales (In Millions)	$978	$969	0.9%
Earnings (In Millions)	36.7	31.8	15.4
Stores	76	76	0

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.

Source: DSN research

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Newly Acquired Auto Giant Continues Expansion

KANSAS CITY, Mo. — The 1986 annual report for Western Auto could become a collector's item.

It's the first—and last—annual report that the nation's largest automotive specialty chain will issue as a newly public company.

Because Sears, Roebuck & Co. acquired the chain this April in a deal valued at $402 million in cash and debt assumption, Western Auto won't issue an annual report for the year ended Jan. 2, 1988.

The chain did, however, file a 10-K with the Securities and Exchange Commission, reporting a 22.5 percent gain in sales to $930.8 million in 1987 from $759.8 million in 1986. Comparable store sales gained 13.2 percent.

Tire Chains Boost Revenues

Included in the consolidated revenues were sales of both Tire America and NTW, another tire specialty chain that Western Auto acquired in December 1987. At the same time that Western Auto went public in January 1987, it acquired the Tire America chain. Together, the tire chains accounted for 75 percent of Western Auto's sales increases in 1987.

Operating profits before income taxes rose 23.2 percent to $18.6 million. Net profits jumped 34.6 percent to $10.5 million in 1987 from $7.8 million in 1986. The improvement still left profits at about half the 1985 figure of $21.3 million net earnings on sales of $721.5 million.

Interest expense, which shot to more than $31 million following the chain's acquisition from Beneficial for $8 million, has dampened Western Auto profits.

For 1988 expansion, Western Auto has earmarked $23 million, following $19.8 million in 1987.

For its outlay of $250 million and the assumption of $152 million in debt, Sears acquired 278 company-owned Western Auto stores.

In addition, 1,570 associate stores (down 174 from 1986) operate under the Western Auto banner and are serviced through the company's wholesale division. Privately owned, associate stores tend to be smaller, rural units, and Western Auto has been closing them by the hundreds.

Wholesale revenues in 1987 accounted for 32.7 percent of Western Auto revenues, down sharply from 52.9 percent in 1985.

In its 10-K filing with the SEC, Western Auto said it expects that the number of its associate stores "will continue to decline as a result of a combination of factors including competitive pressures and economic conditions, particularly in rural areas where many associate stores are located."

At the other end of the scale, Western Auto has assisted 320 of its associate stores to upgrade to what it calls Flag Store status, meaning they are essentially the same automotive supermarket format and carry the same merchandise as the company-owned stores.

In addition, Sears acquired 62 Tire America stores and 54 NTW tire stores to add to its total of 797 Sears auto centers.

Sears also has gotten into the wholesale wig and CB radio businesses through Western Auto's Midland International division and its Eva Gabor wig subsidiary. Wigs and radios accounted for 10 percent of Western Auto revenues for each of the past three years.

Combined with Western Auto sales, Sears will command close to $3 billion in annual revenues from automotive parts and service.

(Continued on page 97)

Western Auto

	1987	1986	% Change
Sales (In Millions)	$ 931	$ 760	22.5%
Earnings (In Millions)	18.6	15.1	23.2
Stores	1,848	2,049	(10.9)

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.
Source: DSN research

WESTERN AUTO

Western Auto

In addition to its 278 company-owned stores (below), 1,570 privately owned associate stores—primarily smaller units in rural areas, like this one in Millersburg, Pa. (right)—operate under the Western Auto banner. Western has been closing these associate units and is testing a new franchise system in 1987, whereby operators would pay franchise fees and follow company merchandising and service policies. (DSN photos)

ANNUAL REPORT: PART II CHILD WORLD

Challenge to New Prez: Cut Costs, Improve Profits

AVON, Mass. — Child World has a brand new president who inherits a new set of marching orders for 1988: cut costs and improve profitability, rather than strive for market share.

After two years on the job, Gilbert L. Wachsman resigned as president in February, apparently a victim of his aggressive pricing policy that contributed to disappointing earnings results. Then, for four months, Dennis H. Barron, chairman of Child World's parent, Cole National, reassumed the title of president.

Effective June 15, Peter J. Hayes took over as president and as a board member. For the previous three years, Hayes had been the chairman of Gold Circle. Hayes left amid the turmoil engulfing Gold Circle, a Federated division that Robert Campeau has proposed selling to help pay down his $4.6 billion debt assumed in order to acquire Federated.

In announcing Hayes' appointment May 18, Barron said Hayes will "bring to the Child World team a breadth and depth of merchandising and management skills including extensive knowledge of the toy business."

Prior to joining Gold Circle, Hayes had served 16 years at Hills Department Stores, where he rose to vice president of merchandising, advertising and sales promotion.

At presstime, Hayes was unavailable for comment on his plans to boost profits.

But in February, Child World disclosed that it intends to tone down the aggressive pricing policies set during Wachsman's tenure. Toys "R" Us, the No. 1 toy specialty chain in sales and profits, had responded to Child World's price slashing by cutting its own prices in markets where they were in competition.

Child World

	1987	1986	% Change
Sales (In Millions)	$749	$629	19.1%
Earnings (In Millions)	22.5	26.0	(13.5)
Stores	152	134	13.4

Earnings: profit or loss from continuing operations, before income taxes and extraordinary items.
Source: DSN research

In 1987, sales at Child World jumped 19 percent but operating profits before income taxes declined by 13.5 percent. In comparison, profits at Toys "R" Us spurted 34 percent on a 28 percent sales increase. Child World revenues rose to $749.1 million in the fiscal year ended Jan. 30, 1988, from $628.8 million the previous year. Operating profits before taxes were $22.5 million, down from $26 million the year before.

A change in accounting rules regarding inventories enabled Child World to report net income of $14.3 million, an increase from $10.9 million. However, applying that accounting rule retroactively would result in flat earnings between 1986 and 1987, Child World said in its annual report.

New Child World president Peter Hayes is expected to continue to tone down the chain's aggressive price slashing policy which has resulted in disappointing profit figures.

Pre-tax income actually fell to $22.5 million in 1987 from $26 million, and only a reduction of $4.1 million provision for income taxes produced an increase in operating profits. Child World's effective tax rate for 1987 fell to 48.9 percent from 57.9 percent in 1986. The 1988 tax rate isn't readily available.

In his letter to stockholders in the 1987 annual report, Barron stated that he had reassumed the presidency "in order to modify certain operating strategies designed to improve profitability" but his statement lacked any specifics about those changes in operating strategy.

In addition to aggressive pricing, "increased costs of advertising, other programs and higher than expected inventory shrinkage in our self-service electronics centers" also held back earnings, Barron wrote.

Profits amounted to 1.53 percent of 1987 sales, concluded Kurt Salmon Associates in its 14th annual profile of retailing. That compares with 6.5 percent at Toys "R" Us.

During the first quarter ended April 30, 1988, the profit picture worsened for Child World. Sales rose 14.8 percent to $119.6 million from $104.2 million in the same quarter of 1987. The chain's customary first period loss increased, however, to $4.4 million, or 38 cents a share, from $2.8 million and 24 cents a share a year ago.

In releasing the results, Barron blamed the larger first quarter loss on the higher expenses of the 18 new stores opened last year and the new distribution center opened this February. "We are optimistic that [unspecified] operating strategies implemented in early 1988 will yield significant improvements in overall results this year," Barron said.

Hayes likely will work more on profits than market share—now increased to more than 5 percent—said Daniel D.

(Continued on page 97)

Newly Acquired Auto Giant Continues Expansion

(Continued from page 95)

In announcing the acquisition of Western Auto, Sears said each chain will continue to operate under its own store name and merchandising program. So far, no sweeping executive changes have surfaced at Western Auto.

As a public entity, Western Auto lived in the public eye for just 15 months after its private owner, Wesray Corporation, sold a 37 percent interest to the public.

Wesray, whose principals include former treasury secretary William Simon, acquired the chain from Beneficial Finance in December 1985. Beneficial had owned it since 1961.

A look at the indicated profits in the deal for Wesray suggests why the wave of corporate takeovers continues to crash over retailing.

Wesray paid Beneficial about $340 million for Western Auto. In addition, it laid out $35 million for Tire America, $15 million for NTW, invested $19.8 million in 33 new stores last year (for a net gain of 25 units after closing eight old stores) and 11 new Tire America stores and paid $3.3 million, net, in 1986 for about 24 White Auto stores, for an indicated total outlay of $413 million.

Besides the $402 million consideration from the Sears buyout, Wesray garnered $56.5 million when it sold 4.8 million shares, or about a 37 percent interest, to the public in January 1987, for an indicated gross profit after 15 months of $33.3 million. That includes $7.8 million in 1986 net income, when Wesray owned the chain privately.

Following the acquisition of Western Auto last April in a deal valued at $402 million in cash and assumption of debt, Sears, Roebuck & Co. will command close to $3 billion in revenues from automotive parts and service.

In a new expansion strategy for 1987, Western Auto developed a true franchise system and is testing several units.

Under its associate system, owners get the right to carry the Western Auto name but are under no obligation to carry Western Auto merchandise and pay no royalties.

Under the new franchise system, store operators pay franchise fees and are required to follow chain policies on merchandising and service.

In an operational shift, Western Auto dropped its private credit card in January, when it had 430,000 customers. It sold $172 million in accounts receivables to NCNB National Bank of Georgia, which now handles the credit purchases of its customers.

In line with its interest in tires, Western Auto expanded its private label tire program for its stores. In mid-1987, it started a branded label program that includes stocking several major labels, such as Michelin and Goodyear, and setting up a special order system that allows customers to order many major brands produced around the world.

Challenge to New Prez: Cut Costs, Improve Profits

(Continued from page 95)

Barry, retail analyst for Kidder, Peabody & Co.

Price cuts helped boost sales by 40 percent over two years, but that increased market share resulted in only modest profit gains. Child World was even cutting prices on toys that were in short supply, he said.

In addition, "Child World needs to work on store operations," Barry said. "A lot of older stores are sloppy."

Child World "has to generate profit," said Robert J. Schweich, managing director and toy industry analyst for Wertheim Schroder.

Hayes will continue the policy that Barron set of being less aggressive on pricing, Schweich predicted.

In a merchandising move, Child World followed the lead of Toys "R" Us in taking on disposable diapers chainwide last year. Diapers, however, often are priced as a traffic-building loss leader, or at best produce little profit.

Child World also established a full candy department last year, along with expanding its party goods department. Unlike diapers, candy does produce good margins.

Among 1987 improvements to operating systems, Barron listed computer processing for basic item purchase orders and a chainwide rollout of computerized store labor scheduling, which Child World began in 1986.

Among facilities improvements, Child World opened in February 1988, a seventh distribution center, which it anticipates will cut transportation costs while allowing better service to stores.

Child World plans to open 15 new stores this year, but so far has disclosed nothing about new markets.

In 1987, the chain opened 18 new stores, pushing its store count to 152 by year-end. Those included stores in four new markets: Flint, Mich.; Baltimore, Md.; Charlotte, N.C.; and Amarillo, Texas.

Child World operates Children's Palace and Child World stores in 30 states.

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Prodigy to Give Big Apple a Taste of PC Shopping

(Continued from page 1)

service providers as airlines, banks and brokerage houses.

Prodigy plans to enter 16 additional markets next year, with the 20 cities representing 41 percent of U.S. households. The long term goal is to be in the top 100 metro areas with about 80 percent of the nation's homes "in a few years," said Harry Smith, senior vp, commercial marketing.

Prodigy next year will also launch an electronic data interchange (EDI) service for retailers and vendors, with the first user being Artec Inc., a wholesale distributor of prerecorded videocassettes in the northeastern United States (see *DSN*, May 23, pg. 7).

Last month, PRODIGY began promoting its service on cable TV and through direct mailings to computer owners in the three cities—Atlanta, Hartford, Conn., and San Francisco—where it launched its service. PRODIGY can also be accessed by company employees at the White Plains headquarters and at their homes in the area.

The 30-second and 60-second cable TV ads and direct mail pieces play up PRODIGY's flat $9.95 monthly subscription fee; competitive with that of a local newspaper delivery service, diversified shopping and information services, and its easy-to-use format requires no technical background or experience, a selling feature deemed important to family members who aren't computer literate.

The electronic retailer this month put into effect a new schedule of charges to retailers and service providers that reflects PRODIGY's transformation from its prior experimental stage into an on-going national operation. Companies that now sign up will do so under the new schedule, which is higher than the fees charged firms that helped pioneer the service.

The new charges illustrate Prodigy's effort to be more responsive to the needs of retailers and service providers, including having clients or advertisers devise their own ads and promotional schedules.

The new fee schedule provides a client with a full complement of ads for $25,000 to $85,000, depending on the number of frames or "pages" used, the number of viewers seeing the ads and the cost of producing the messages.

Smith said the new rates provide "greater flexibility for our clients. They can now buy a seasonal package or even a monthly promotion. Prodigy's maturity and growth mean we can now offer clients just what they want."

The new schedule, just released this month, contains two charges, one for the cost of creating and delivering frames of a retailer's ads and taking orders and the other based on PRODIGY's circulation or number of consumers viewing the service.

He said that Prodigy was ready to "license our frame creation technology" to clients and their ad agencies "and train their people to make their own frames."

Previously, during the test phase, advertisers signed on for a 12-month period, with the rates ranging from $10,000 to $75,000, depending on the number of PRODIGY frames they used and order processing options. Clients paid $10,000 for about 10 frames to $75,000 for 200 frames, with the number of products dependent on the number of frames used to merchandise an item.

PRODIGY's slow, measured expansion denotes the marketing and technical challenges facing the company, a four-year-old partnership between IBM and Sears, Roebuck which have spent an estimated $400 million-plus to develop the service.

While Prodigy, in its marketing, is interested in gaining subscribers, its early advertising effort is primarily designed to develop awareness of the service among computer owners—and even non-owners who are looking for reasons to buy a machine. These inaugural activities are building to the main promotional thrust this fall when a much wider ad program will be launched that will also use network TV, tie-ins with computer specialty stores, other retailers and specific computer vendors, PC user clubs, and possibly newspapers.

PRODIGY is using cable TV in the three cities to target its ads to demographically desired communities that are home to the service's prime consumer group: higher-income professionals earning over $40,000, inclined to shop through such non-store retail sources as catalogs and telephones and who are computer owners or likely to buy a PC within the new few years.

The advertising's goal: impressing computer owners with the benefits of signing up and using PRODIGY while also convincing non-PC owners that they need the service, with PRODIGY the enhancement that will make a computer a true home appliance.

The fall ad push will coincide with the full rollout of PRODIGY's shopping and information providers. While over 100 advertisers have signed up, only half are actually offering some type of service, with one key client, home grocery shopping, due to go on-line this fall and, so far, just in two cities: Atlanta, where Kroger will provide the service, and San Francisco, where GROCERY EXPRESS, a telephone and computer food operator, is the advertiser.

Familiar Names Team Up for New Catalog Showroom Chain

(Continued from page 1)

fall in major malls in Louisiana, Fleming told *DSN*. These stores will distribute about 150,000 copies of a condensed 256-page catalog that will feature the jewelry, giftware and home goods sections of the basic Associated Charter book.

At least one larger freestanding traditional showroom is also being considered, possibly in a New Orleans suburb. It will use about the same number of copies of the standard 424-page Associated Charter catalog.

Fleming said, "there's no one like our specialty showrooms now in the market. They will merchandise jewelry, giftware and home goods," with the exact assortment to be developed by Fleming and the buying staff he is currently putting together.

The specialty showroom chain will differ from the jewelry stores that are now ubiquitous in malls by offering fine jewelry at a discount and by merchandising a broader mix (including giftware and home goods) than just diamonds, rings and watches. The stores, however, won't carry consumer electronics, sporting goods, photo, toys and juvenile products that are found in full-line showrooms.

The projected larger traditional showroom will be a full-line store, selling all the products found in the catalog.

The senior Wilson, who sold H.J. Wilson in 1984 to Service Merchandise, doesn't hold any post with the proposed new showroom operation, but is an advisor and consultant, Fleming said. When Wilson sold H.J. Wilson, it was the third largest showroom chain with $520.5 million in sales.

Wilson Jr., who had been involved in a number of business ventures in Florida, is HWI's chairman and chief executive; Fleming is president and chief operating officer.

At one time, Fleming had been senior vp, jewelry merchandising of H.J. Wilson, but left the company prior to its sale to Service. At Best, he headed up the jewelry merchandising operation and helped to develop the Best Jewelry specialty store division which consists of 2,000-square-foot jewelry and giftware units in malls.

The only other former H.J. Wilson executive with the proposed Huey Wilson chain is Gregory J. Cotter, secretary, treasurer. Cotter had been H.J. Wilson's senior vp and treasurer and cfo. When the cataloger was sold, he joined the senior Wilson in his new venture, Great America Corp., a Baton Rouge-based bank holding company.

Fleming has already hired Luise Stone as giftware buyer, and is talking with a number of former H.J. Wilson merchandisers. Stone had been with O.G. Wilson, which went bankrupt last year and United Jewelry, which is currently being liquidated (see *DSN*, July 4, pg. 2).

The mall stores HWI is eyeing are believed to be former United units that were returned to their landlords as part of the liquidation. Fleming said HWI was negotiating for a number of sites and expected to sign some leases by the end of next month; the stores would be opened in September and October.

The core of the Huey Wilson chain will be located in malls because of their high traffic. Huey Wilson also expects to generate its own traffic through the use of catalogs, fliers, newspaper ROP and some radio and some TV ads.

The catalog will be called the Huey Wilson Gift Guide.

Fleming said at least four showrooms are planned, but Associated Charter, in an announcement to its members and the trade, said HWI projected six to eight units. The site of the planned full-line showroom was identified as Slidell, outside New Orleans.

Fleming told *DSN* the first units would be in Louisiana, but future growth would take place in other states.

—Arthur Markowitz

Former Allied Stores Prez Creates Bidding War for Gold Circle Chain

(Continued from page 1)

more people, unsure of what will happen, might leave."

Now that there's a competing bid for the entire chain, Smailes said he doesn't expect any resolution of Gold Circle's future before the end of the month. "We had hoped that Mr. Campeau would have wanted to clear up the process, but instead his strategy has been to institute an auction process," Smailes added.

Smailes said that Morosky, like Gold Circle management, is interested in the entire chain. Smailes added that he's heard Wal-Mart and Hills Department Stores are interested in certain stores.

However, when Robert Campeau, chairman of Campeau Corp., acquired Federated Department Stores, he made it clear he wanted to unload the Worthington, Ohio-based discounter, along with other Federated divisions, in its entirety, not piecemeal.

Smailes added, "Glass and I remain confident that our management-led LBO has a very good chance at success."

There have also been reports that Morosky, if successful in acquiring Gold Circle, is interested in combining the chain with another discounter to form a national discount chain.

Morosky did not return phone calls to his home in Columbus, Ohio.

Smailes refused to comment on the actual bidding. He would neither confirm nor deny industry reports that place the bidding for the 21-year-old chain between $300 million and $400 million. Book value of the discounter is estimated at about $300 million.

When asked whether Gold Circle management has any expansion plans for the chain if its LBO is successful, Smailes replied, "That's what we're talking about now."

When asked about the Bradlees units up for sale, he said, "Our financial partners would have to be very much involved in any decision; the Bradlees units would represent a major expansion."

Smailes admitted that while he is "very disappointed" over the flight of top Gold Circle executives and other employees during recent months, he's "pleased we've kept as many key people as we have."

Among those who left Gold Circle were Peter Hayes, chairman (now heading Child World); Steve Fishman, senior vice president (now at Caldor with similar duties), and Bill Weikert, a vice president and divisional merchandise manager (also now at Caldor). Other merchandisers have also left, many of them going to Caldor (see story, *DSN*, June 6, page 1).

Morosky, who was vice chairman of The Limited before his brief stay at Allied, has been reported as saying that the discount business is ripe for change. He went on to say that while some discounters are still being run as regional chains, they could profit from economies of scale by expanding into national chains.

Morosky is working with Odyssey Partners, a New York-based investment firm, and First Boston is working with the Gold Circle management team.

In related news, Kohl's Department Stores is reportedly interested in acquiring Main-Street, the struggling apparel division of Federated-Allied, which Campeau has also put up for sale.

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Women's Apparel Grows Up

Discounters Shift Fashion Spotlight To Older Women

By Kenneth M. Chanko
Nationwide DSN Report

News Analysis

Discount chains will be stocking more conservative styles, more in tune to their aging customer base, as they attempt to rebound from a nearly year-long downturn in women's apparel sales, which has affected everyone from upscale specialty stores to off-pricers.

Ironically, the industry-wide drought in women's apparel sales is the result of factors that several years ago would not have affected discounters to the degree they have over the past 10 months.

The factors most cited are a lack of fresh new looks (a common complaint from retailers), confusion over skirt lengths (most women, at this point, have rejected the miniskirt), "the bulge of the baby boom" (too much of an emphasis on juniors), and "sticker shock" (price increases on many items).

Slow women's apparel sales is a direct result of the upscaling of most discounters (as represented by this Bradless unit), which has led to a department store-like fashion vulnerability. (DSN photo)

Discounters have been suffering along with their upscale counterparts precisely because they're more like department stores than ever before in terms of merchandise and environment.

In the past, most discounters would have missed the peaks and valleys of a fashion fad that played itself out at the upscale department stores and specialty stores. But now that discounters are reacting to fashion more and more quickly, many are in the same boat as the department stores, said analysts and retailers.

For example, if the miniskirt look had hit four or five years ago, the majority of discounters wouldn't have committed to it for at least three to six months from when it hit upscale stores. And since the mini never really caught on in a major way, discounters would have taken note and would probably have eschewed the entire mini-skirt fad altogether.

But this time around, for ex-

(Continued on page 41)

Jewelcor chairman Seymour Holtzman (left) got Senator Arlen Specter, R-Pa., to speak at a conference warning about another senator's attempt to ban gray market imports. (DSN photo)

Catalogers Enlist Senator To Defend the Gray Market

By Richard C. Halverson

SECAUCUS, N.J. — The catalog showroom industry recruited U.S. Senator Arlen Specter, R-Pa., to beat the drums last month about a Congressional attack on gray market imports.

At a press conference orchestrated by Wilkes-Barre, Pa.-based cataloger Jewelcor, Specter expressed his support of stiffer enforcement of antitrust laws as a way to ensure that U.S. consumers enjoy the lowest possible prices and that Congress is poised to act to counter lax antitrust enforcement under the Reagan administration.

The National Association of Catalog Showroom Merchandisers (NACSM) and Gruen Marketing, a gray market watch importing arm of Jewel-

(Continued on page 42)

Court Approves Heck's Plan to Shutter 35 Units

NITRO, W.Va. — Heck's has received bankruptcy court approval to close 35 stores that accounted for $6 million of its $61.3 million loss last year.

The fourth round of closings since 1986 will slash store count to 83, half of the 1986 high of 165. The number of Heck's units will fall to 71 from 92 and the number of stores the chain operates under the Maloney name will be more than halved to 12 from 26. Consolidated sales will tumble to about $300 million from $417.8 million in calendar '87.

In addition, a Chapter 11 bankruptcy judge extended until Aug. 1 the discounter's period for filing its own plan for reorganization. That makes at least the third extension of the period during which Heck's was protected from having creditors force their own reorganization plan or even drive the chain into involuntary Chapter 7 dissolution.

Proceeds from closing the stores and liquidating inventory will be placed in escrow, Heck's said, and are expected to help finance reorganization.

Anywhere from 700 to 1,000 employees will lose their jobs when 21 Heck's stores and 14 smaller stores that operate under the Maloney name are closed. The firings will include 35 of 200 headquarters employees.

Kentucky will bear the brunt of the Maloney closings, accounting for 13 of the 14, along with two Heck's. The state previously had 20 Maloney units.

(Continued on page 41)

K mart Unveils Girls' McCall's

NEW YORK — K mart and *McCall's* have joined forces to publish a special promotional magazine targeted at 6- to 12-year-old girls. Called *Betsy McCall Magazine*, it will be a "daughter's version of mommy's magazine."

It will debut in *McCall's* September issue and be distributed in all K mart stores. Betsy McCall licensed toys and clothing are planned.

Loehmann's Sale Accents Changes Among Off-Pricers

NEW YORK — The sale last month of Loehmann's, one of the original off-pricers, underscores the intense competition in today's apparel discounting business.

May Department Stores Co., which acquired the Bronx, N.Y.-based off-pricer when it merged with Associated Dry Goods Corp. two years ago, has agreed to sell the 77-unit chain to an investor group led by a Spanish concern, Sefinco Ltd., and the Sprout Group, a division of the Donaldson, Lufkin & Jenrette Securities Corp. Terms were not disclosed.

While a May Co. spokesman said the offer was "unsolicit-

(Continued on page 41)

Study: Upscal
Continues

Sporting Goods:
Prices Head Up

Automotive
Specialists

0024037C DS
MS JEANNE LONG
CONGRESSIONAL INFOR SVC 1Y8
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814 **

MARKETWATCH

Wal-Mart Donates Fans to Parched Midwest

BENTONVILLE, Ark. — Wal-Mart, in cooperation with two major U.S. manufacturers, has donated 10,000 20-inch box fans, valued at $125,000 to $150,000, to relief groups in the 25 states in which the retailer does business. The fans are meant to help the elderly and disadvantaged beat the heat wave that has parched the Midwest and most of the South through June and July. The fans were manufactured by Toastmaster Inc. of Columbia, Mo., and Lasko Metal Products, West Chester, Pa. The bulk of the financial responsibility was assumed by Wal-Mart, a company spokesperson said, although both manufacturers donated significant amounts to the effort.

Coleco Files for Chapter 11 Relief

WEST HARTFORD, Conn. — After failing to gain creditor approval to restructure its finances, Coleco Industries has filed for Chapter 11 bankruptcy protection. Coleco is the nation's fifth-largest toymaker. The toymaker, whose fortunes rose and fell on the backs of Cabbage Patch dolls, also announced that chairman and chief executive officer Morton Handel, recovering from major surgery, has stepped down. President J. Brian Clarke has assumed those positions. A crisis management consultant, Antonio C. Alvarez II, has joined Clarke in the newly formed "office of the chief executive."

NACSM Elects New President, Treasurer

HAUPPAUGE, N.Y. — The National Association of Catalog Showroom Merchandisers has elected Jean Coticchio as its president and George Seitzinger as treasurer. It also moved its headquarters here. Coticchio previously was sales manager for *Upscale Discounting* and a sales representative with Procter & Gamble. Seitzinger is Best Products' vice president, marketing communications. NACSM is now located at 740 Veterans Memorial Highway, Hauppauge, N.Y. 11788. Phone: (516) 979-0166.

Target Names Pellegrene New Sr. VP

MINNEAPOLIS — Target Stores last month received a new senior vice president of marketing from its sister company Dayton Hudson Department Stores. John Pellegrene, who replaces now-retired Sonja Larsen at Target, reports directly to company ceo and chairman Robert Ulrich. Pellegrene first joined Hudson's in 1969 as director of advertising and most recently held the position of senior vp of marketing at Dayton Hudson Department Stores. Target spokesman George Hite said there will not be any immediate changes in the company's advertising.

K mart Plans Hypermarket Bank Operator

TROY, Mich. — K mart is expected to decide on a financial service center operator for its American Fare hypermarket in Stone Mountain, Ga., by this fall. The financial service center will be among a number of specialty stores in the hypermarket, a joint venture between K mart and the Bruno's supermarket chain. K mart already leases out space in many of its discount stores for financial service centers to a number of banks and other institutions.

Target Opens 9 Units in Pacific Northwest

MINNEAPOLIS — The Pacific Northwest has been inundated with the first wave of Target stores, part of a planned invasion of 35 sites by 1993. Opened in late July were four stores in the Portland, Ore., area and five sites in the greater Puget Sound market in Washington state—placing Target in competition with such local chains as Fred Meyer and Bi-Mart.

HSN Tests Financial Planning Services

ST. PETERSBURG, Fla. — Teleshopper Home Shopping Network last month began testing marketing financial services in Dallas and Houston through a joint venture with the American General Life Insurance Co. HSN's Wealth Planning Resource Center subsidiary and American General are jointly offering financial planning services to Home Shopping Club members in the two Texas cities as well as nationwide through AGLI's 3,800 agents.

FOR THE RECORD

Operating earnings for Trak Auto were incorrectly reported in the July 4 census issue. The correct figures are $8.4 million for the year ended Jan. 31, 1988, up steeply from $1.4 million in the previous year and $7 million in fiscal 1986. Trak Auto's store count grew from 212 as of January 1987 to 245 as of January 1988. The company projects its store count to increase to 275 by the end of this year.

Ward Completes $3.8B LBO; Specialty Strategy Continues

CHICAGO — The $3.8 billion leveraged buyout of Montgomery Ward & Co. from Mobil Corp. has been completed, announced the 323-unit retailer, headquartered here.

The deal for Montgomery Ward, which is now owned by an investor group led by company chairman and chief executive officer Bernard F. Brennan, became effective on June 23. The buyout was first announced on March 7, 1988 (see *DSN*, March 28, page 1).

"We are excited about our new independence and as 'owners of the store' we will continue to concentrate on our value-driven specialty store strategy," Brennan said in a prepared statement.

When the LBO was first announced, Brennan told *DSN* that Montgomery Ward was looking to expand the chain through its specialty divisions—Electric Avenue, Home Ideas, Auto Express and The Apparel Store—plus launch the new athletic footwear department and create a strong seasonals area.

He said Mongtomery Ward planned to open 22 new stores and convert over 50 more to its new specialty formats this year. Soon after that, in April, the Chicago-based retailer opened six stores, including three in the Indianapolis area, a new market.

Brennan also said that Montgomery Ward may even consider acquiring a company of its own "if an acquisition made sense." So far, no acquisition has been announced.

Although Brennan led the investment group in acquiring Montgomery Ward, he was part of a team that included an unspecified number of senior executives at Montgomery Ward, GE Capital Corp., a unit of GE Financial Services, and Kidder Peabody, an investment banking and securities firm.

The $3.8 billion price tag included $1.5 billion in cash plus the assumption of $2.3 billion of debt.

The debt was immediately reduced by $1 billion, however. As part of the LBO, GE Capital assumed ownership and responsibility for the retailer's private label credit card operation, which remains available to Montgomery Ward customers.

3 More Catalog Showroom Chains Forced to Close Their Book for Good

Nationwide DSN Report

Add four more local catalog showroom operators—Key Catalog Showrooms, R & R Jewelry, Wilkor Jewelors and Standard Showcase—to the chains leaving the industry.

The four join United Jewelers, a showroom-format specialty chain, which has already phased out almost all its stores (see *DSN*, July 4, page 2).

Unlike United, which filed a Chapter 11 plan, the other four catalogers either closed their doors or are liquidating their businesses without resorting to a bankruptcy petition. While the reasons for their moves vary, the four catalogers were small operators showing stagnant or small sales gains that hadn't pursued any aggressive expansion during the past few years.

Allied Wholesale president Ed Bowles said that its Key catalog arm, the largest of the four with nine showrooms and about $33 million in volume, was closing because of a "change in consumer buying habits, particularly a decline in shopper interest in discounted goods." Key had been a member of the Premier Merchandising & Marketing division of Paul Schultz Catalogs.

Wilkor and R & R cited similar reasons for their going out of business. In notes to their creditors, each said that their bank had called in loans, leaving them with no choice but to close.

Wilkor was a four-store, $27 million chain that had been a member of the Associated Charter group. R & R had five stores with about $25 million in volume. It had been a member of the American Merchandisers group.

The retirement of Standard Showcase's owners was the reason that the two showrooms and one jewelry specialty store chain closed. The company had about $15 million in sales and also was a member of the Premier Merchandising & Marketing group.

Silverman Jewelers Consultants, a liquidator, is conducting the GOB sales for Wilkor, Key and R & R and handled Standard's liquidation.

DSN's Kennedy Named Eastern District Manager

NEW YORK — John Failla, national sales manager of *DSN*, announced the promotion of Kevin Kennedy to the position of Eastern district manager.

Kennedy has been area manager working out of *DSN*'s New York office for the past three years. He is now responsible for managing all of *DSN*'s business in New York, New Jersey, eastern Pennsylvania, Maryland, Delaware, Virginia, North Carolina, South Carolina, Georgia and Florida.

Kennedy was also named 1987 *DSN* Salesman of the Year.

Prior to joining *DSN*, Kennedy was a regional manager for Miracle Gro plant food. He holds a bachelor's degree from Holy Cross College, Worcester, Mass.

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One-Price Clothing Chains Set to Slug It Out

By Mary Ellen Kelly

MONTGOMERY, Ala. — Competition within a growing category of the women's apparel market—-one-price clothing stores—is expected to heat up here in the Southeast following the grand opening of seven Simply $6 stores in the region last month.

Customer response to the new stores during the grand opening suggests the chain could be a formidable apparel competitor in the market.

Simply $6—a new operation created by Birmingham, Ala.-based discount chain, Bargain Town USA, and its Montgomery, Ala.-based parent, Kinder-Care Specialty Retail Group—is encroaching upon the turf of the region's one-price chain leader.

One Price Clothing, with 127 stores in seven Southeastern states, had been the sole one-pricer in the region before Simply $6 opened. Based in Duncan, S.C., the majority of One Price Clothing's stores are in the Carolinas (43 in South Carolina and 38 in North Carolina) and Georgia (22). The chain also has stores in Tennessee, Alabama, Virginia and West Virginia.

The two retailers' market areas overlap in Alabama and Georgia. Simply $6 has staked out Tennessee, Florida and Mississippi as other states where it will open stores before year-end.

Five of the seven Simply $6 stores were opened in Alabama: Tuscaloosa, Talladega, Jasper, Arab and Birmingham. The other two were opened in Carrollton, Ga. The company plans to open about 70 stores per year.

The two retailers not only share market areas, but similar merchandising strategies as well. Both sell women's apparel, all priced at $6. They operate 3,000-square-foot units, utilize a gray and red color scheme, target lower-to moderate-income shoppers, and have staked out the Southeast as the region to blanket before moving to other areas.

"We're the one they're copying," said Raymond Waters, vice president and treasurer of One Price Clothing.

Both also wield enough assets to wage an aggressive, long-term market battle. Kinder-Care, which last year diversified into retailing, is the nation's largest children's day care operator with 1987 revenues of $506 million.

One Price Clothing, which originated with three stores in 1984, generated $41 million in sales by the end of 1987, up from just $25 million in '86 and $7 million during '85.

At the opening of the Birmingham Simply $6 store, women carried armloads of sportswear—including overrun and closeout blouses, pants, blazers, sweaters, skirts, dresses and shorts—to the store's six dressing rooms and then to the registers.

Simply $6 does not sell jewelry, hosiery or other fashion accessories. Plus-size merchandise is well represented in the rear of the store; petite apparel is intermixed with regular-sized garments.

Rodney Barstein, Bargain Town USA president, said there will be little if any merchandise overlap between Bargain Town and Simply $6. Bargain Town operates 58 discount stores in the Southeast. For now, Bargain Town merchandisers handle the buying duties for Simply $6.

Every Item
ONE PRICE
Every Day!
Simply
$6

Simply $6, a new one-price apparel chain, received a high-traffic welcome from Birmingham, Ala., shoppers during its grand opening last month. By year-end, 30 units are slated to be open. (DSN photo)

Audio, Video Tape Price Hikes Shift Discounter Emphasis to Off-Brands

By Peter Hisey

Nationwide DSN Report

While prices on name brand audio and video tape, both mass market staples, will rise 10 percent to 12 percent this summer, the increase could actually give discounters an improved market position.

On the whole, discount buyers don't seem especially worried, noting that the increased price of many name brands will only increase the appeal of off-brands, where discounters have a decided edge over the competing specialty chains.

In the past two months, most major recording tape manufacturers, including BASF, Sony, Maxell, Fuji and TDK have announced price jumps, as well as a near universal end to rebates and other "price war" promotions. The result, retailers say, will be a slight decline in unit sales.

The accent is on "slight." As a buyer at Indianapolis-based The Wholesale Club noted, "in real dollars, this is not a major factor in the buying decision." With tapes selling in the $2 to $4 range, the increase will total some 20 cents to 50 cents per tape. "That might deter some people, and others might buy less than they otherwise would have, but overall, the effect should be minimal," the retailer said.

(Continued on page 23)

BUYER REGISTRATION
VERIFICATION

NHMA Avoids CES Conflicts

The National Housewares Manufacturers Assn.'s January 1990 show has been rescheduled for Jan. 14 to 17 to avoid a conflict with the Consumer Electronics Show. Earlier, the NHMA changed its 1989 show dates to Jan. 15 to 18 to resolve a similar conflict. Last month's NHMA show did little to settle industry debate over the need for a second housewares show, see Editorial, page 6. (DSN photo)

June Discount Store Sales

Chain	June '88 Sales (In Millions)	June '87 Sales (In Millions)	Percent Change	Same Store Sales Percent Change
Circuit City	$ 121	$ 88	37.0%	9.0%
Wal-Mart	1,620	1,230	31.7	13.0
Target	NA	NA	27.0	3.0
Jamesway	80	69	15.9	8.0
Caldor	175	156	12.1	8.7
Hills	124	113	9.2	2.6
Ames	212	198	7.5	3.4
K mart	2,596	2,430	7.0	2.9
Venture	107	103	3.9	(1.1)
Zayre Stores	NA	NA	(3.0)	(8.5)

( )—losses NA-not available

Source: DSN research

June Sales Better Than Anticipated

Nationwide DSN Report

Even allowing for a "touch of inflation," discount store sales in June were "pretty good," concluded Dan Barry, retail analyst for Kidder Peabody, New York.

Barry's index of same store sales gains for eight major discounters showed a 5.3 percent gain this June, up from 4.8 percent in the same month of 1987. The results reflect a "reawakening of mid-America," Barry said.

Fashions are still doing relatively poorly, Barry said, but that affects department stores more than discounters.

A factor that distorted the year-to-year comparisons is that July 4 fell in the '87 reporting period—but not in '88.

"Our same store sales increase for June was reduced by the shift of one week of promotional advertising from June last year to July this year," Ames Department Stores president Peter B. Hollis said in announcing results. "We anticipate that this advertising shift . . . will contribute to higher sales increases for July."

(Continued on page 42)

Graying Baby Boomers Spur Market for Reading Glasses

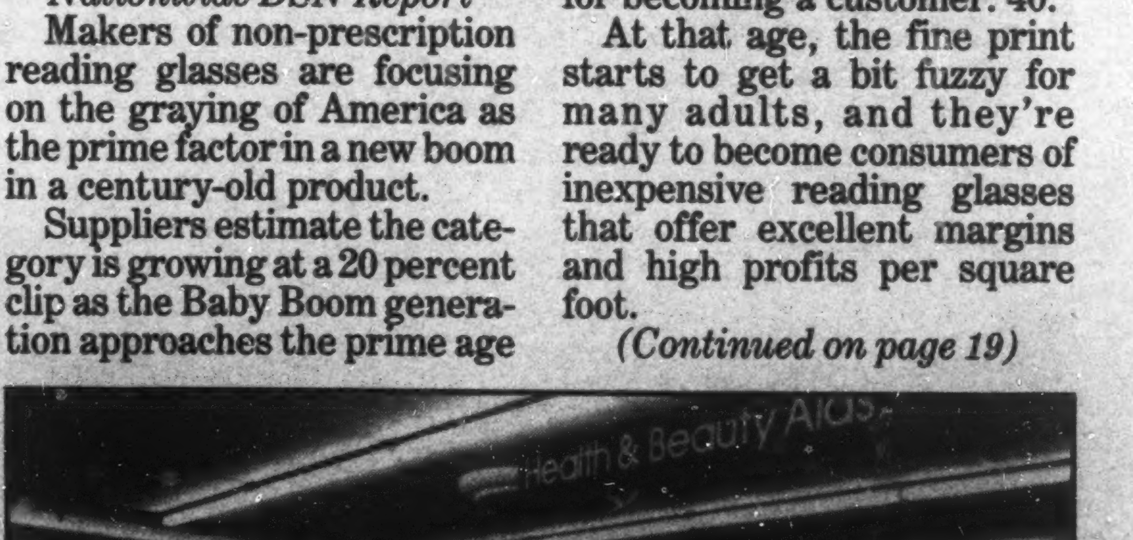
Nationwide DSN Report

Makers of non-prescription reading glasses are focusing on the graying of America as the prime factor in a new boom in a century-old product.

Suppliers estimate the category is growing at a 20 percent clip as the Baby Boom generation approaches the prime age for becoming a customer: 40.

At that age, the fine print starts to get a bit fuzzy for many adults, and they're ready to become consumers of inexpensive reading glasses that offer excellent margins and high profits per square foot.

(Continued on page 19)



K mart's Piqua, Ohio, store merchandises reading glasses in the health and beauty aids department. Stores without pharmacies generally locate the product on the jewelry counter. (DSN photo)

Apparel

Discounters Reject Down-and-Dirty Look

By Peter Hisey

NEW YORK — Environmental upscaling in apparel departments will continue to gather steam over the next year, a survey sponsored by *DSN* concluded.

The survey, conducted by New York-based Jerard Less Inc., polled 25 major discount department and off-price specialty chains in late spring about a variety of upscaling issues. The short-form result: Discounters see upscaling as a key method of increasing and maximizing sales in their apparel departments.

Overall, about four of five retailers contacted said upscaling store environment was either important or very important to the company's thinking. The remaining fifth said upgrading was somewhat important. The down-and-dirty discounting concept may be a thing of the past, with none of the respondents feeling that upscaling was unimportant.

Significantly, smaller chains, which included several fashion-forward specialty outlets, were only slightly more sold on upscaling than larger chains, most of which were full-line discount department stores. While smaller stores were more likely to call upscaling very important, larger chains were far more likely to consider it "important."

An overwhelming percentage (84 percent) of both smaller and larger chains plan to engage in some form of upgrading within the next 12 months. Smaller chains are marginally more likely to consider upgrading.

Size made no difference in general upgrading plans, and those considering upgrading evidently planned to be thorough. Equal percentages of smaller and larger stores planned to both upgrade fixtures and upscale visual merchandising.

Specific plans did vary by size of operation. While increasing graphics and pictorial signing was a popular option with both small and large chains, smaller chains tended to favor department store-like touches such as shop-within-a-shop concepts, mannequins and acrylic silhouettes.

Larger chains took a more macro approach, favoring increased use of focal walls, fashion coordination, port-a-walls, mood selling and creating a high-tech look.

About one-third of respondents are using POP video merchandising aids now, and about 15 percent plan to add video cubes in '88. These are low totals compared to department store use of video merchandising.

Nearly all respondents have altered their floor plans as an upgrading step. All of the larger chains and all but two of the smaller ones made a change in layout. Although the moves varied in detail, the thrust in different size chains was similar. Racetrack designs were common, as was refining space allocation.

Smaller chains tended toward department store touches like new carpeting and creating a "lifestyle" atmosphere, while larger chains favored more service-oriented changes, such as attaching point-of-sale information to new items.

Service orientation as a whole has become a major concern among retailers. About 85 percent of those queried said that service has become important to his or her store's thinking, with smaller chains slightly more likely to stress service than larger chains. While several respondents noted that budgetary constraints tend to limit service, most stores added that they have beefed up training programs and employee incentives.

That can take the form of *more* training or *different* training. One respondent noted, for instance, that its training program is aimed at establishing a more direct customer-to-salesperson relationship. At the other end of the spectrum, a larger chain said that its approach to improving service is to continue to work at improving its self-service layout.

The range of answers pointed out the split in thinking on service—most thought in terms of adding more and better-trained saleshelp, yet others addressed it technologically, thinking in terms of improving customer access, POP information and checkout procedures.

While larger chains seemed to be more involved in technology, several of the smaller chains also mentioned technological-type upgrading.

Despite recent attention to fashion-forward presentations, deeper stock and "value-pricing," most discounters seem to feel that they will have to continue to play the lowest-price game. Overall, 70 percent said that the move by competitors to more and lower off-pricing will affect their business strategies, and an overwhelming 90 percent plan to meet low prices with lower ones, with larger chains more likely to respond to lower prices than smaller chains.

However, lower prices is only one part of the equation. Most of those queried planned other competitive strategies, the most popular of which were everyday low-price concepts and more promotional pricing. Attention to assortment depth received some support, and combinations, generally involving everyday low pricing, were also popular.

While responses were fairly consistent among the two groups of stores, they varied widely when respondents were asked what strategy was most appealing to customers. Nearly half of smaller-chain execs said that everyday low pricing was the most appealing to their customers; less than 30 percent of larger chains agreed. Larger chains were heavily promotional (55 percent), and less than one-quarter of all respondents, regardless of size, felt that deep assortments were most appealing. Price remains the No. 1 element in attracting customers.

At the same time, the retailers polled are beefing up their fashion selections. Both large and small chains increased fashion merchandise about 15 percent last year, smaller chains to 54 percent of their total mix, larger chains to about one-half of their mix. These results were affected by one smaller chain that reduced its fashion merchandise by a hefty 30 percent.

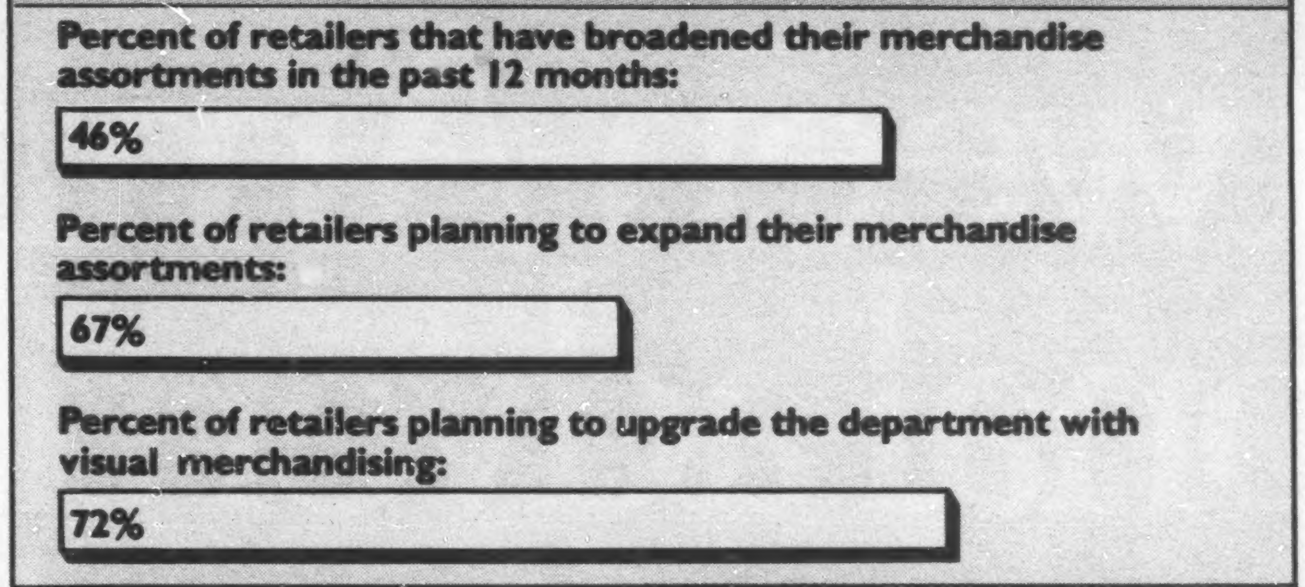
A large majority of retailers divide their open-to-buys into fashion and basics, with larger chains slightly more likely to do so.

Smaller chains overwhelmingly agreed that the increased attention to fashion was a move to upscaling (100 percent) and would step up price points (over 90 percent). In contrast, larger chains said that increasing fashion mix was not an upscaling strategy (56 percent) and split down the middle on whether it would mean higher price points.

While about two-thirds of the retailers have expanded their merchandise assortments over the last year, less than half plan to do so this year. Those that are planning on expansion were primarily lukewarm on the subject. "We're looking at a few new lines," one said. "We're going to better coordinated groups as opposed to separates," said another. Other plans included expanding scarves selection, adding on to accessories and building up plus sizes.

This survey was conducted earlier this year by Jerard Less Inc., a New York-based market research group. Letters were mailed to prospective respondents explaining the survey before phone calls were made. Respondents ranged in responsibility from vice president to buyer of mass merchandisers, discounters and off-price apparel chains. All respondents were guaranteed total anonymity.

Upscale Focus Shifts from Merchandise Mix To Store Environment



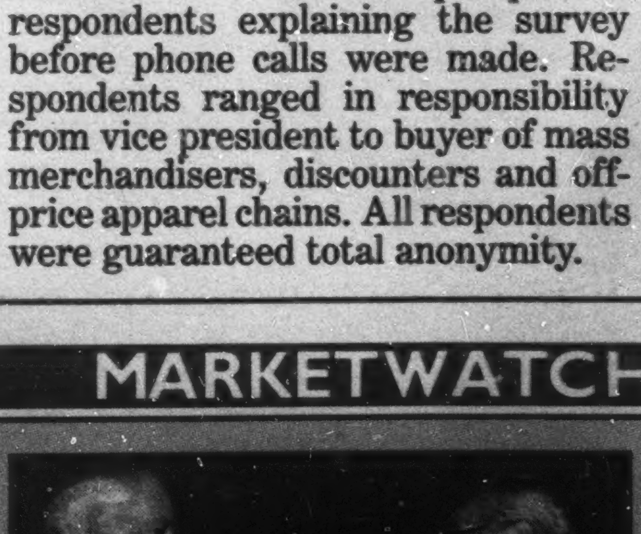
The survey indicates that many discounters over the last year have expanded their product mix, in most cases to more fashionable apparel. Having done that, the emphasis going forward will be on upgrading store environment and refining the departments' visual merchandising presentation.

Source: DSN/Jerard Less Inc.

MARKETWATCH

NEWARK, Calif. — **Marshalls**, the country's No. 1 off-price apparel chain, dismissed a store manager here over a memorandum that instructed store employees to refuse returned linens items from black customers. The store manager, Eva Vidal, wrote the memo and had it posted under glass at a cashier's counter. It read: "If any black person returns any sheet sets, refuse a cash voucher or exchange or credit for any reason." The customer, Cynthia Sterling, a black woman, said Vidal implied that the $80 comforter, which she wanted to exchange, had been stolen because she didn't have a receipt. But Sterling said Vidal declined to check store records. When contacted by *DSN*, Francis Arnone, president of Marshalls, declined to comment further on the incident. He was quoted in an Associated Press story on the incident as saying he was "personally embarrassed and appalled," and that he had apologized to Sterling. It was also reported that the local chapter of the N.A.A.C.P. plans a meeting to discuss the incident, as well as a possible boycott of the Wakefield, Mass.-based off-pricer. Marshalls operates 297 units in the United States.

NEW YORK — Sy Syms (right), chairman of Syms, the off-pricer based in Secaucus, N.J., and national chairman of State of Israel Bonds, received the Israel 40th Anniversary Gold Medal at an international dinner held recently at the Waldorf-Astoria under the auspices of the Bond Organization. Presenting the medal to Syms are Ambassador Walter Annenberg (left), America's former chief envoy to Great Britain, and Jack Weiler (center), international chairman of the Israel President's Club. More than $77 million in Israel bond subscriptions were announced at the dinner, which had over 1,000 attendees from three continents.



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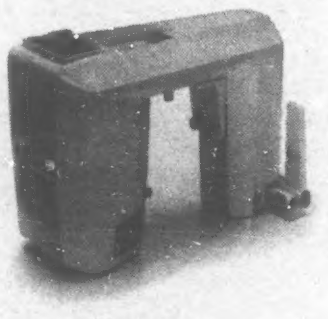

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Catalog Chains Enlist Pa. Senator To Defend Gray Market Imports

(Continued from page 1)

cor, jointly sponsored Specter's appearance and split the cost of his $2,000 honorarium.

The purpose of their effort was to generate publicity in opposition to a rider to a Senate bill that would ban gray market imports. Filed July 6 by Sen. Orrin Hatch, R-Utah, the rider would be attached to a House-passed bill that would ban retail price fixing. The measure is scheduled for a Senate floor vote the first week of August (see Washington Report, page 6).

"Passage of the amendment would unnecessarily raise prices of foreign-made goods to American consumers," NACSM said in a release.

But the trade association does support the basic bill, S 430, which was sponsored by Sen. Howard Metzenbaum, D-Ohio. "This bill seeks to prevent retail price fixing by suppliers," the statement said. "Major Japanese manufacturers have approached catalog showrooms since the U.S. Supreme Court decision in the Sharp case, on May 5, 1988, urging catalog showroom and other retailers to adhere to minimum selling prices."

In the Sharp decision, the U.S. Supreme Court said a supplier could cut off a discounter and still comply with antitrust law, as long as the vendor didn't conspire with others to set a specific price. If passed, the Senate bill would overturn that decision.

The Hatch amendment would overturn another Supreme Court decision, rendered May 31, that said gray market goods, in most circumstances, are legal.

A Hatch staffer conceded that the senator filed his amendment as a way to fight S 430. Hatch sent fellow senators a letter soliciting support for his gray market ban, the staffer said, and may file his amendment as a freestanding bill on its own.

In a bid to undercut the Hatch amendment, NACSM leveled charges at the conference that Seiko, a major Japanese watch supplier, is leading the fight to ban gray market imports and at the same time selling watches through its Ocean Distributors subsidiary to Blue Spot Inc., a gray market distributor in New York.

In turn, Blue Spot, is supplying watches to such discounters as Target and possibly Price Club, said three American ex-Seiko employees. They asked to remain nameless, although they appeared publicly at the press conference.

The ex-Seiko executives publicly charged that shipments were sent by Seiko to Blue Spot under the name Sheva B'rachot, or Seven Blessings, a Hebrew phrase referring to post-wedding celebrations. However, the speakers produced no invoices or other evidence to support their charges.

Blue Spot president Irving Zifir denied that his company has "any Sheva B'rachot division." He refused, though, to answer the question of whether his company has accepted shipments from Seiko in the name of Sheva B'rachot.

Through his secretary, Seiko president Robert Pliskin said he was too busy at presstime to comment on the NACSM allegations.

Seiko has been leading the fight against gray market goods, said Richard Kelly, NACSM counsel. Such opponents argue that gray market goods should be banned because consumers fail to get a manufacturer's warranty on them and that discounters of such goods get a free ride on manufacturer advertising and promotions to support their authorized U.S. distributors, Kelly said.

Seiko's actions cause that "argument to fall of its own weight," Kelly said at the conference, held in Gruen Marketing's Secaucus headquarters.

Kelly alleged that since 1983, Seiko has been selling a "substantial number of watches to gray market distributors." Catalog showroom operators provide their own warranties, he added.

The three ex-Seiko employees, who now work for a U.S. gray market distributor, said Seiko sold an estimated $50 million worth of goods (wholesale) on the U.S. gray market last year, equal to about 1 million units.

"It's important for Congress to know" about Seiko's activities, Kelly said. Retail price maintenance and gray market imports are "flip sides of the same coin," Kelly said.

NACSM intends to send a letter to the Senate Judiciary Committee documenting its charges about Seiko and detailing efforts of foreign suppliers following the Sharp decision to enforce retail price fixing by threats of cancellation, Kelly said.

During his talk, Specter, who sits on the Judiciary Committee, expressed dissatisfaction with antitrust enforcement under former Attorney General Edwin Meese and predicted that "Congress will promote action to bring goods to American consumers as cheaply as possible."

"Watches ought to be brought to consumers as inexpensively as possible without manufacturers setting prices," Specter said.

During questioning following his talk, Specter said he had no independent knowledge about any Seiko gray market sales or those of any other supplier.

"I don't know what Seiko's policies are," Specter said. If Seiko gray market sales can be confirmed, however, that would "undercut their contention that there shouldn't be gray market goods," he said.

"Congress has established a broad principle: stop price fixing in the interests of getting the lowest price for consumers," Specter said.

June Sales Better Than Anticipated

(Continued from page 3)

Blistering weather also contributed to hard goods sales in June. At Circuit City, Richmond, Va., for example, the June sales increase of 37 percent (see chart on page 3) reflects "strong demand for air conditioning," president and ceo Richard Sharp said in a release.

At Jamesway, Secaucus, N.J., hot June weather boosted sales of seasonal categories—air conditioning, patio furniture and fans—propelling the chain to a 16 percent sales gain, 8 percent on a comparable store basis.

Any effects of the Midwestern drought are expected to appear in July sales figures. Sales of lawn mowers, for instance, have dried up for one Midwestern-based chain, while sales of lawn sprinkling systems are spurting, its spokesman said.

Comparable store sales gains ranged from a high of 13 percent at Wal-Mart, Bentonville, Ark., to an 8.5 percent decline reported by Zayre Stores, Framingham, Mass. (excluding TJX Cos. and BJ's Wholesale Club).

Wal-Mart's figures exclude results from its Hypermart USA in Garland, Texas, because it is a joint venture. It does include 1,177 Wal-Mart stores, 87 Sam's Wholesale Clubs, 14 dot discount drug stores and one wholly-owned Hypermarket USA, located in Topeka, Kan.

"Zayre is up against a highly promotional period last June," treasurer Steve Wishman said. The decline in sales this June stemmed primarily from "a lower level of promotionality," he said.

Venture, O'Fallon, Mo., also reported a decline of 1.1 percent on a same store basis.

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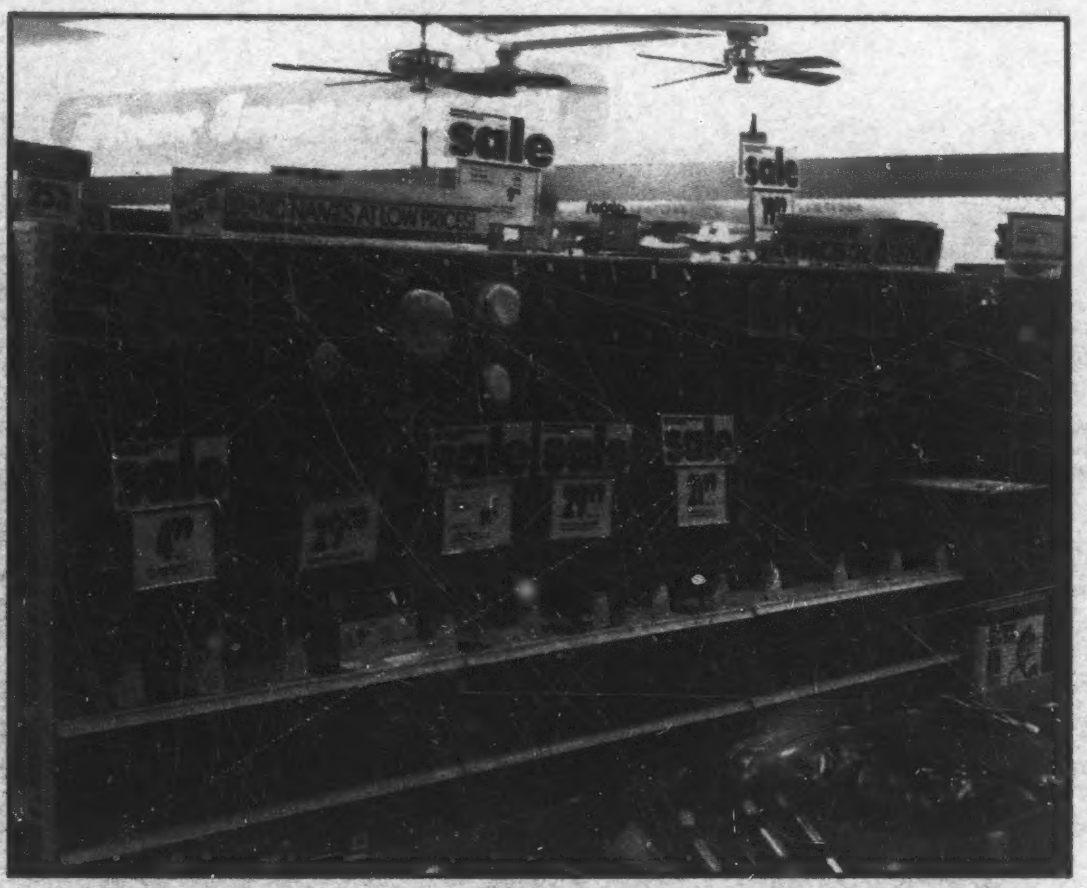


Hardware Buyers Wired to Cordless

Cordless power tools and products geared to women shoppers are among the new products, merchandising programs and packaging innovations expected to drive discounters' hard lines business in the coming year. See DSN *coverage of the National Hardware Show, beginning on page 33.* (DSN photo)

K mart Joins Prodigy Service; Looks to Gain Upscale Market

By Arthur Markowitz

TROY, Mich. — In a major thrust into electronic retailing, K mart plans to start advertising on Prodigy, the interactive computer shopping and information service, early next year.

K mart is the first discounter to join Prodigy. Its move has major ramifications for the retailer, the electronic retailing business and Prodigy.

The linkup with Prodigy is part of K mart's marketing effort to reach "leading-edge," upscale, technology-oriented shoppers who currently aren't part of its core base of customers, but who are seen as electronic retailing shoppers.

K mart's signing with Prodigy is a big boost—providing greater credibility—for both the electronic retailing field and for the computer shopping service. Prodigy, a $400 million-plus joint venture between IBM and Sears, Roebuck & Co., launched its service in three markets June 1 (*DSN*, May 23, page 7).

Available for a fee of $9.95 per month, Prodigy is a videotex service that allows personal computer users to access a broad range of goods and services.

Next year Prodigy plans to launch an electronic data interchange service for retailers as part of its plans to augment its consumer orientation with services specifically geared for businesses.

By adding K mart to its list of over 100 retailers, direct

(Continued on page 58)

Page 2 Newsbreakers:

- Haft's at it again: Dart Group chairman plans to acquire a large stake in Zayre.
- Sears gets branded: With Brand Central, it takes aim at CE and appliance business.
- Twin killing: Developer to pair hypermarket & dept. store in Minneapolis.
- Super Costco: Wholesale club will open hypermarket-type superstore in Seattle.

Drought Sets Back Lawn & Garden

Mother Nature Wilts Sales

By Richard C. Halverson
Nationwide DSN Report

For the lawn and garden industry, 1988 is going down as the Year of the Drought.

Water rationing began as early as mid-May in Atlanta, and got so severe in Northern California that K mart had to stop selling green goods in 25 to 35 stores because its water allotment was too little to keep plants alive.

But, while the drought wiped out sales of lawn care products in many areas of the country, retailers are hoping to reap better sales next spring as homeowners replace shrubs and trees that died and reseed scorched lawns.

In a broad band of the Midwest extending to the East Coast, many communities barred residents from watering lawns and shrubs. Lawns turned brown, and shrubs and trees died.

Robert Armstrong, senior horticultural buyer for K mart, said conditions are "the worst that I can remember" in 33 years in the business. States such as Iowa, Kansas, Michigan, Ohio and Wisconsin experienced a severe loss of shrubs and even mature trees, he said.

(Continued on page 48)

Riding Mowers, Garden Tractors Bright Spot in Dry Year

By Laura Liebeck

LOUISVILLE, Ky. — Sales of outdoor power equipment should rise 5 percent in 1989 over 1988, predicted an economist during a press conference at last month's Lawn, Garden & Outdoor Power Equipment Expo here.

Describing this year's drought as a "one-year blip" that brought a premature end to what was shaping up as a promising year for outdoor power products, economist Ray Daniel said 1989 will be "a good retail year" if the weather patterns return to normal.

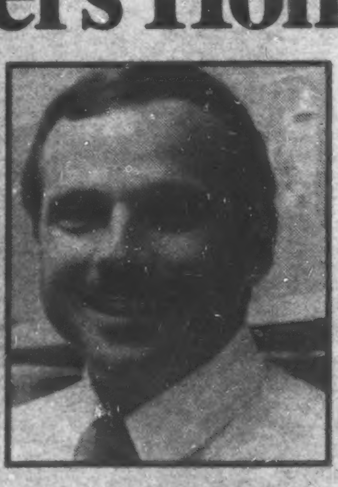
Daniel even found a positive side to this

(Continued on page 56)

Industry Leaders Honored at SPARC

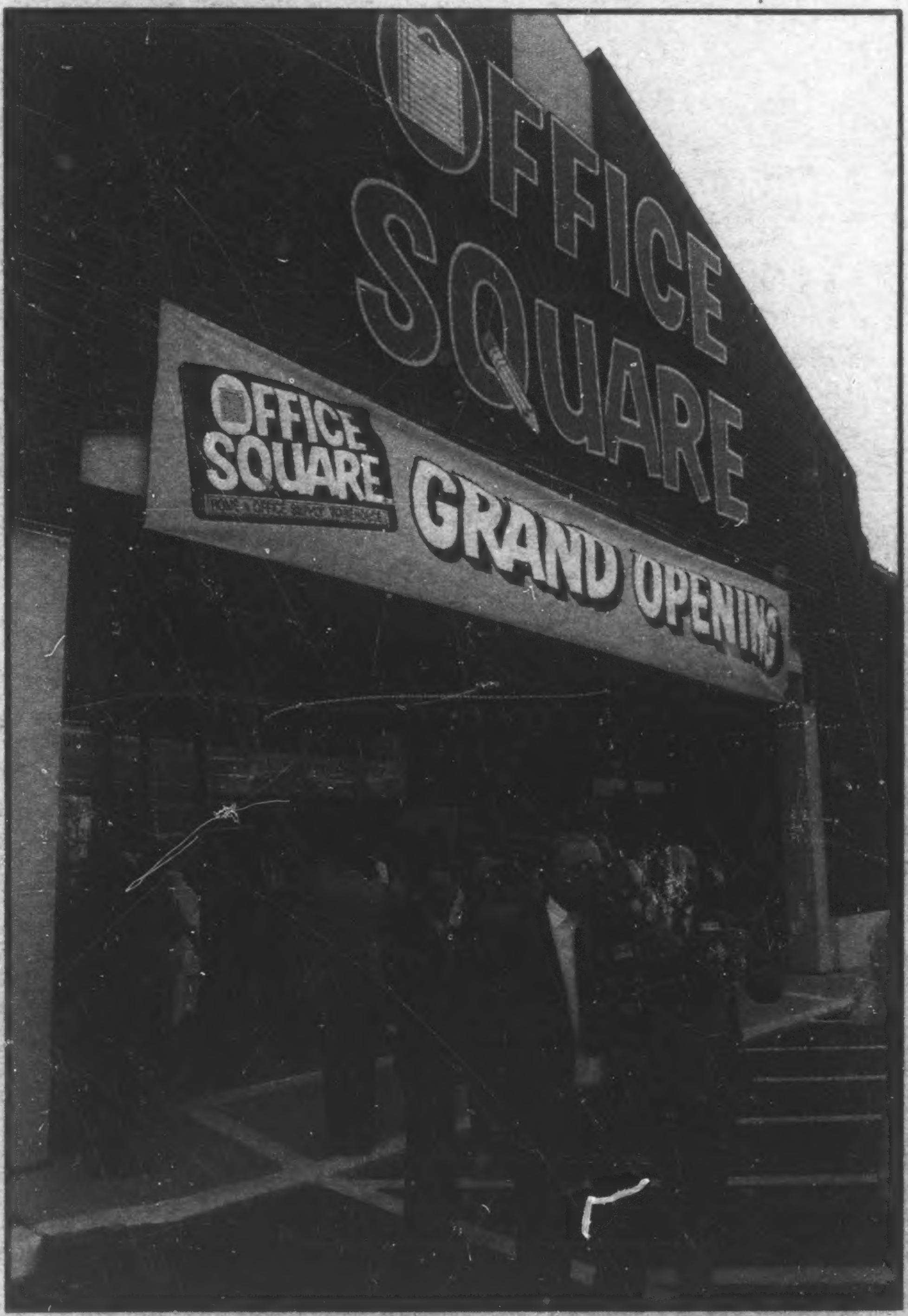
Joseph Antonini

Sol Price



Wolf Schmitt

NEW YORK—Joseph E. Antonini, chairman, president and ceo of K mart, has been elected Discounter of the Year by readers of *DSN*. Antonini, with Price Club founder Sol Price (inducted into the Discounting Hall of Fame) and Rubbermaid Home Products Division president Wolf Schmitt (Vendor of the Year), were slated to be honored at the annual SPARC awards dinner on Aug. 14. See profiles of these discount industry leaders, pp. 15-19.



K mart Unwraps Office Square

Frank Denny, chairman of K mart's Builders Square subsidiary, took the wraps off the discounter's latest specialty store concept: Office Square. The new 25,000-square-foot office products megastore opened its doors on Aug. 3 in Palatine, Ill., about one hour from downtown Chicago. The store offers 9,000 sku's. (DSN photo)

K mart
Hosiery

Hardware Buyers Hunt Trends

Drought Parches L&G Sales

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MARKETWATCH

Dart Group Eyes Zayre Corp. Stock

FRAMINGHAM, Mass. — Zayre Corp., the subject of many takeover rumors, most recently involving shopping center developer Edward DeBartollo, has now caught the eye of corporate raider Herbert Haft. Haft, whose Dart Group failed in a number of earlier bids, including one to acquire Dayton Hudson Corp., earlier this month notified the discounter that his company plans to buy at least $15 million in Zayre stock. This would amount to about 1.5 percent of Zayre's outstanding shares. Given his track record, many observers doubt Haft really seeks to acquire control of the troubled discounter. Zayre chairman Maurice Segall, shrugging off the bid as "unsolicited and unilateral," earlier said that Zayre would report a large second quarter operating loss, primarily due to its discount store division. Zayre also reported an 11.7 percent revenue gain in July to $422.3 million, and an 11 percent gain to $3 billion for the 26 weeks ended Aug. 1.

Costco to Open Seattle-Area Superstore

KIRKLAND, Wash. — Costco Wholesale, the 43-unit membership warehouse club chain here, said it will open a consumer-oriented superstore in the Seattle area in March. Costco president Jim Sinegal said the presently unnamed venture, which will be located at Federal Way, will fill a void in the marketplace, while also allowing the company to draw on the merchandising talents of its executives who have past experience with former food/nonfood combination retailers like Gemco and Fedmart. The 155,000-square-foot unit will contain 15,000 sku's and operate on margins of around 20 percent, compared to the typical 3,200 sku's and 10 percent margins of the wholesale clubs, according to sources.

Hechinger Interested in Bradlees Stores

BRAINTREE, Mass. — Hechinger, the Landover, Md.-based home center chain, is the latest company to take an interest in Bradlees' 58-store Southern region, which the discounter's parent company, Stop & Shop, put on the block in May in an effort to reduce $1.4 billion in debt. Like previously mentioned retailers, including The Home Depot, the Atlanta-based home center chain, and discounters Clover, Philadelphia, and Gee Bee, Johnstown, Pa., Hechinger appears interested only in select stores. Stop & Shop wants to sell the region as an ongoing business, although several industry observers regard that as unlikely. *DSN* has learned that Stop & Shop has placed an undisclosed deadline on the sale of the region. After that deadline, some industry observers believe Stop & Shop will be willing to sell the region in parts.

Cullum Cos. Agrees to $380M LBO

DALLAS — Cullum Cos., Wal-Mart's supermarket partner in two Hypermart USAs in the Dallas market, has agreed to a $380 million leveraged buyout by a group composed of top management and a Morgan Stanley LBO fund. Holders of Cullum's 16.9 million shares are expected to approve the pending buyout offer. The buyout could see the resulting privately-held Cullum more aggressively pursue the launching of hypermarkets, either in conjunction with Wal-Mart or apart from the discounter. The second Cullum/Wal-Mart Hypermart USA opened in Arlington earlier this month.

Saveco Converts Unit to Mini-Hypermarket

RIVERSIDE, Calif. — Saveco, which filed a Chapter 11 bankruptcy petition earlier this year, has converted its one store here from a membership warehouse format to a open-door mini-hypermarket. The company, which lost $3.8 million on $17.5 million in sales last year, is running the grocery section while apparel, books, health and beauty aids, and auto goods are being sold on consignment.

Stanley Works Files Trademark Suit

NEW BRITAIN, Conn. — The Stanley Works filed suit Aug. 3 against Cooper Industries, Houston, citing trademark infringment, unfair competition and other violations of federal and Illinois law. The suit, filed in the U.S. District Court for the Northern District of Illinois, Eastern Division, alleges that Cooper has manufactured and marketed tape rules deliberately simulating the overall design of Stanley's Tape Rule Case Design registered with the U.S. Patent and Trademark Office. Cooper makes Lufkin and other brand tape rules.

FOR THE RECORD

Alan Close is vice president and general merchandise manager, hard lines at Ames Department Stores. His title was reported incorrectly in the Aug. 1 issue of *DSN*.

Price Club Buys Grocery Wholesaler; Picks Up Valuable Real Estate Sites

By Pamela Krein

SAN DIEGO — The Price Club has entered into an agreement to buy grocery wholesale distributor Alfred M. Lewis for $52 million.

The deal would give Price five large warehouse/distribution centers in California, Nevada and Arizona—ranging from 171,000 square feet to 483,000 square feet. The agreement also includes the sale to Price Club of 35, 10,000-square-foot cash and carry wholesale distribution outlets, which serve the grocery needs of small food stores in the Southwest.

While the latter business could provide Price Club with another new avenue to explore, the San Diego-based membership wholesale club's vice president of finance Dan Carter said, at this time "the focus [of the acquisition] is primarily real estate."

The acquisition is currently in a six-week due diligence period, during which time Riverside, Calif.-based A.M. Lewis will open its books to Price Club's attorneys and accountants. Carter said the acquisition would be a cash purchase of A.M. Lewis' stock.

The move reinforces Price's commitment to property ownership and conservative growth, said Ward Lindenmayer, analyst with Sutro & Co. "You have to look at Price Club as a combination retailer and real estate player."

Lindenmayer said the acquisition provides a chance for Price to pick up valuable real estate in markets where land values are relatively high. Although Price Club is not revealing its plans for the company, he speculated that Price will use whatever space it needs for a warehouse store and sell off the remainder. He does not expect Price Club to operate the wholesale grocery distribution business.

The five large warehouse/distribution sites provide Price with several good opportunities. The "crown jewel," as Price Club's Carter called it, is the largest site, located in the Northridge suburb of Los Angeles' San Fernando Valley. At the opposite end of the valley from an existing Price Club, the A.M. Lewis site is in a busy retail and residential area.

Auchan Mulls Pairing with Department Store

Hypermarket Heads to Minneapolis

By Peter Hisey

MINNEAPOLIS — Downtown Minneapolis may be home to its very own hypermarket if plans filed with and approved by the Minneapolis City Council by French shopping center developer LSGI (La Societé Generale Immobiliere) come to fruition.

But, a spokesman for the developer said that nothing is certain yet, and revisions of earlier plans may alter the original intention of pairing an Auchan hypermarket with an upscale department store.

According to Denny Daniels, director of program management for the Minneapolis Community Development Agency, LSGI plans to build a 640,000-square-foot enclosed mall in the heart of the city. John Beal, a real estate consultant representing LSGI, said that the final figure should be approximately 670,000 square feet.

According to Beal, the original proposal called for a 200,000-square-foot Nordstrom department store, various specialty stores, underground parking for 1,200 cars (with above-ground parking for another 500 to 1,000) and, according to a letter of intent, an Auchan hypermarket. Auchan, the French hypermarket operator, previously announced its intention to open U.S. hypermarkets in Houston and Chicago.

Auchan's intentions were made "before we had to revise our plans," Beal said. Revisions were made necessary when the owner of one parcel of land in the development sued to be excluded from the plan. LSGI is still in the process of reworking the plans, and Auchan will then have the option of participating or dropping out, Beal said.

LSGI is a major European shopping center developer, with centers in France and other European countries.

Sears to Carry More Nat'l Brands

CHICAGO — Sears has begun to identify the national brands it is adding in its attempt to strengthen its consumer electronics and appliance business, with Xerox home office and school products set to debut this month.

Sears is the first mass merchandise retailer to sell Xerox products. Other brand name products, such as Singer, Jenn-Air and Marantz, will soon be available at Sears stores as the nation's largest retailer positions itself more squarely in direct competition with discount and CE chains.

Sears, Roebuck & Co. announced it will sell more than 60 different national brands of home appliances nd consumer electronics, including its popular Kenmore label, in 13 stores in Indiana.

A complete rollout of the program will begin in early 1989 and be completed in mid-1991, according to Michael Bozic, chairman and chief executive officer of Sears Merchandise Group. He said the new departments, named Brand Central, will open at a rate of one store per day.

Sears currently operates 813 full-line department stores.

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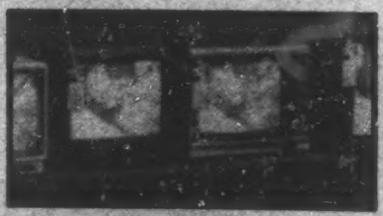

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Nationwide Drought Wilts Lawn & Garden Sales

(Continued from page 1)

K mart experienced an 8 percent gain in horticultural sales in 1987, Armstrong said. But because of the drought, he said, "I wouldn't even hazard a guess about 1988 sales."

The drought slowed sales of riding mowers, which had been doing exceptionally well earlier in the season, Armstrong said, although they still are doing well in parts of the South that aren't affected by the drought.

Chains "couldn't get enough" sprinklers and garden hose back in July, although the mower season died prematurely in most of the nation and green goods sales slumped when the drought struck with a vengeance in June. Despite recent rains in the Midwest, the drought hasn't been broken, said Walt Ehret, L & G buyer for The Andersons, Maumee, Ohio.

Yet, what is turning out to be a disaster for many home gardeners promises to become a bonanza for lawn and garden merchandisers next spring, and perhaps the fall, as homeowners replant and reseed their homesteads.

The Andersons, whose L & G season lasts from March through Nov. 1, was having an outstanding season until June 1, Ehret said. Sales were up 10 percent to 15 percent over last year, he said. Bedding plants had risen 25 percent, he said.

Then the drought turned "an outstanding season into a mediocre one. The slowdown in sales was strictly related to the drought," said Ehret, adding gross profits will be off a percentage point or two.

The extent of compensating sales to replace lost green goods and lawns won't be known until next spring, Ehret said, when homeowners see whether their landscaping recovered in the fall and survived the winter.

Another big question mark for the fall will be availability of lawn seed and green goods—at a price consumers will bear.

Grass seed supplies are tight globally, Ehret said, and the supply of green goods also is being squeezed.

"I expect an increase in green goods sales this fall, if the supply lets us."

Prices on lawn seed and green goods will rise 5 percent to 10 percent, The Andersons' buyer predicted.

Baby boomers are driving L & G sales as they reach the key home buying age of 30 to 49, said Bruce Butterfield, research director for the National Gardening Association and a marketing consultant. The NGA 1987 survey, for example, found that average expenditures for that age bracket came to $293 last year, compared to $251 for the population as a whole.

Total L & G expenditures rose 23 percent in 1987 to $17.49 billion from $14.21 billion in 1986. That followed an estimated 18 percent gain in '86 from $12.03 billion in '85.

As usual, lawn care dominated the field, with sales of $5.45 billion in 1987, compared to $2.92 billion for the No. 2 category, landscaping.

Of 70 million households that participated in gardening last year, 15 million, or 21 percent, bought products from mass merchants and discounters, the survey found.

In addition to replacement sales of green goods, the drought may spur sales of related categories, such as water timers, drip irrigation systems, containers for gardening on patios and decks (which requires less water), and soil conditioners that hold moisture, such as Terrasorb, Butterfield said.

Color is popular now, Butterfield said, with homeowners shooting for flowering shrubs, trees and perennials, as well as annual bedding plants, that will produce a succession of color from spring through fall. Retailers need to plan their inventory to meet that demand, he advised.

Convenience continues to lead the way in product lines, Butterfield said. Examples are hose-in lawn fertilizers such as Miracle-Gro and insecticides in ready to use pump bottles, he said.

Women are increasingly involved in gardening, said Armstrong from K mart. Women want an instant garden, "color right now," Armstrong said, and will buy through the summer, starting with 4-inch potted plants and ending with gallon-size plants. Sales of color bedding plants have gained 20 percent to 25 percent over the past three years, he said.

Changing lifestyles that revolve around condos and decks boosted sales of planter boxes in hot colors—peach, mauve and slate blue—50 percent this year, Armstrong said. The K mart buyer plans to order 50 percent more of such merchandise next year from major vendors like Durco and Rubbermaid.

Lawn & Garden Retail Sales 1986-87
(In Millions)

Category	1987	1986	Percent Change
Lawn Care	$ 5,449	$ 4,317	26.2
Landscaping	2,921	2,176	34.2
Gardening	1,777	1,519	17.0
Vegetable Gardening	1,253	1,363	(8.1)
Tree Care	1,253	845	48.3
Indoor Houseplants	1,105	826	33.5
Insect Control	979	992	(1.3)
Shrub Care	840	659	27.5
Ornamental Gardening	471	166	183.7
Flower Bulbs	456	431	5.8
Other	987	912	8.2
Totals (In Billions)	$17.49	$14.21	23%

Source: National Gardening Association, 1987-88 Survey

LAWN & GARDEN
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K mart Signs with Prodigy Service

(Continued from page 1)

marketers and service providers, Prodigy's clients now include three of the nation's leading four merchants—Sears, K mart and JCPenney—along with such other retailers as Nieman Marcus, ComputerLand, Florsheim, The Broadway and Spiegel.

K mart has set Feb. 1, 1989, as the target date for its debut on Prodigy, "but if we can get our ads up sooner, we will start sooner," said Russell Jones, K mart's director of planning and research, who is heading up the discounter's move into electronic retailing.

The discounter's ads will run in all current Prodigy markets—Atlanta, San Francisco and Hartford, Conn., as well as White Plains, N.Y., where the service is headquartered—along with 16 new cities such as New York that are due to get the service in 1989.

While K mart believes "it has a lot to offer Prodigy users," the key reason for its move is reaching "shoppers we aren't particularly effective at selling a broad range of goods," Jones said.

He identified this group as "more upscale shoppers, leading-edge, two-income families who are catalog shoppers." They visit K mart for staple merchandise and now the discounter "wants to make them familiar with the rest of the store" and "see if we can sell them jewelry, sporting goods, cameras."

K mart will use Prodigy to promote selected hard goods: jewelry, consumer electronics, sporting goods, cameras and home fashions like the Kitchen Korner.

Prodigy ads won't be tied into K mart's roto program as "we will want to run some Prodigy promos for longer than a week," he said.

K mart hasn't ruled out using Prodigy to take orders for merchandise as some other retailers on the systems are doing. This step could also result in the discounter developing its own mailing list of upscale consumers for direct marketing purposes.

K mart's flexibility in changing ads is limited by the videotex technology and the discounter's interest in reaching as wide an audience as possible. Text of ads can be quickly changed, even weekly, but revamping the computer graphics takes longer.

K mart signed a one-year agreement with Prodigy, for an undisclosed amount, and will use about 200 frames—individual computer screen presentations—for its promos. The sequence of screens includes K mart's institution presentation like store locations and product ads.

Prodigy's fees range from $25,000 to $85,000, depending on the number of frames used, the number of viewers seeing the ads and production costs.

The agreement includes the use of "leader" or teaser promotions, short ads that appear on the bottom of screens containing news briefs or sports or weather reports. Only one client's ad appears at one time as a leader on a screen, acting as a draw to the client's full promo.

Jones said Prodigy's editorial content was a selling point. "It's like a magazine, with the leaders [serving as] the hook to capture consumers who use system for information, rather than to shop. It's like advertising in *Women's Day* or *Sport.*"

Prodigy can provide K mart, and other clients, with a demographic profile on who views its ads, the frequency and other information. They won't relate the names of the actual viewers, which are confidential.

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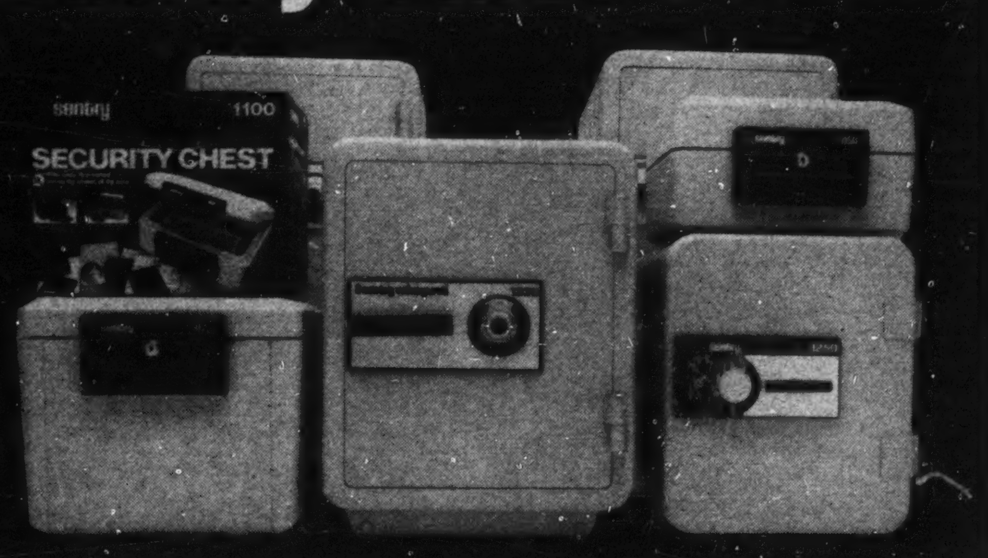

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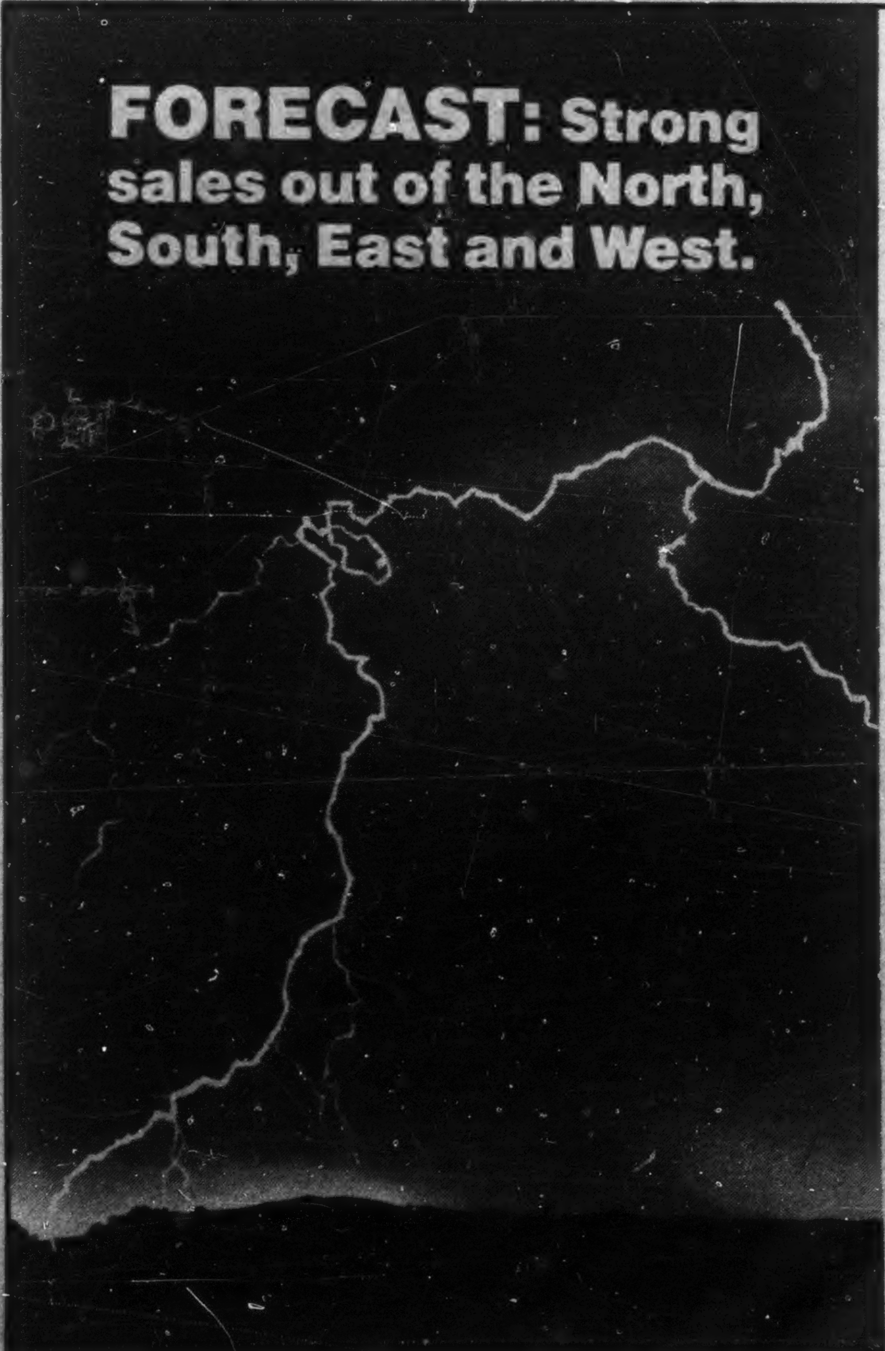

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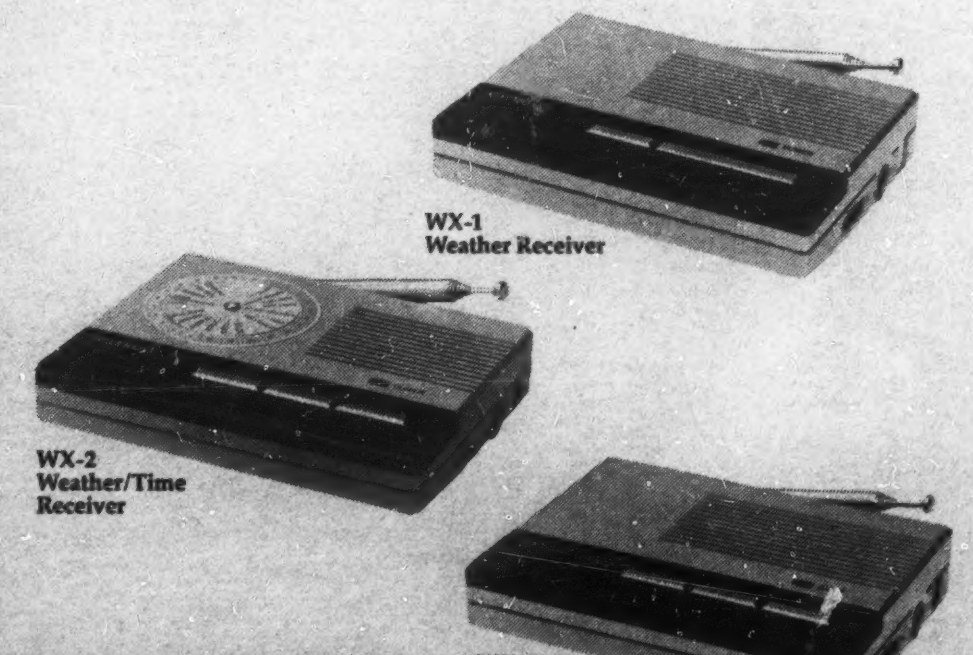

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THE NEWSPAPER OF DISCOUNT RETAILING

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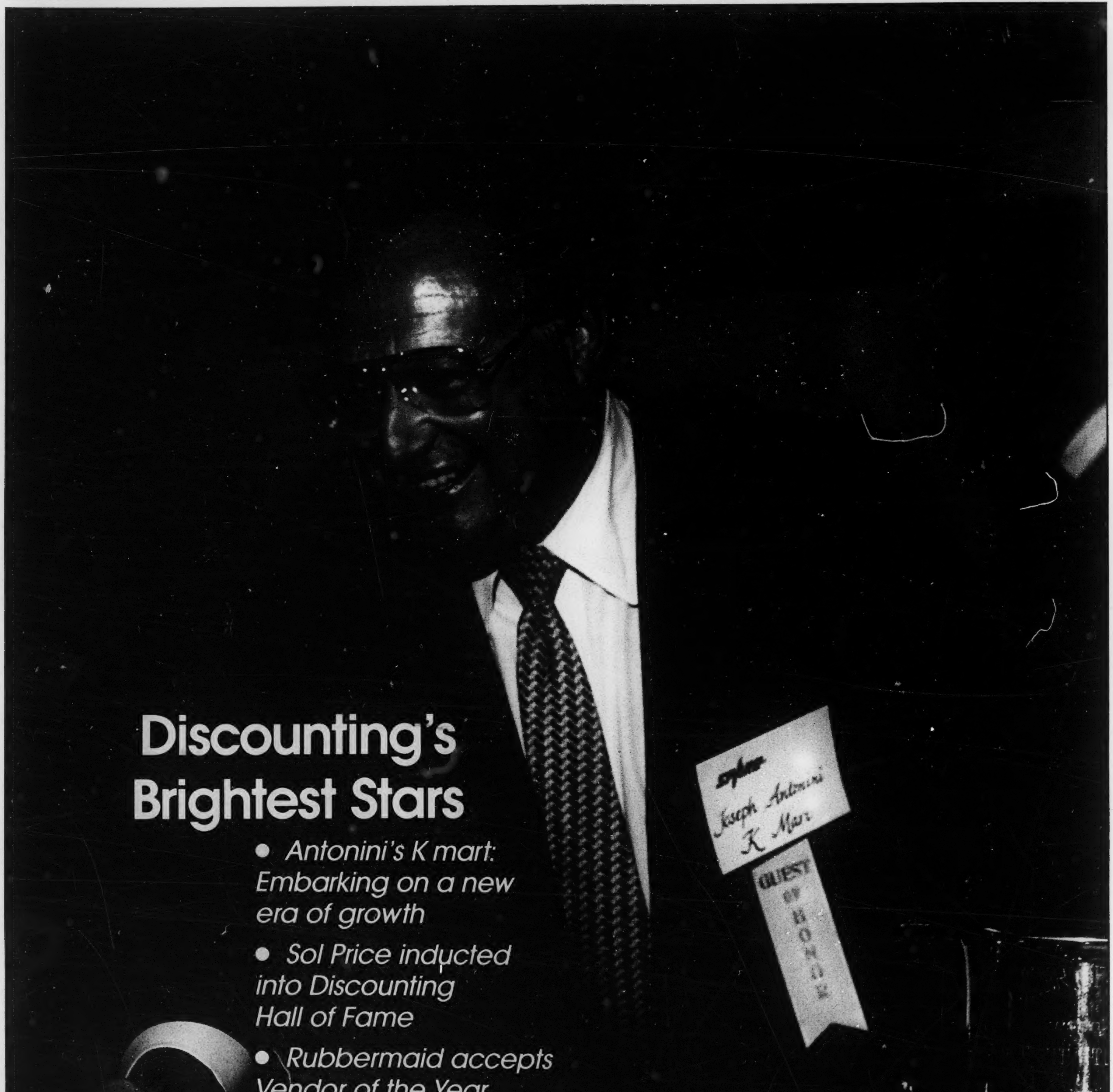
$2 per copy

September 26, 1988



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- Sol Price inducted into Discounting Hall of Fame
- Rubbermaid accepts Vendor of the Year
- Retailers honor top suppliers in 18 categories

Joseph Antonini receives Discounter of the Year award at 11th annual SPARC awards dinner

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Ames Buys Zayre Stores

Troubled 388-Unit Discount Division Sold for $800 Million—see story below

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Multi-Firm Deal Splinters Gold Circle

Discounters Pick Up 68 Units

By Kenneth M. Chanko

WORTHINGTON, Ohio — After 21 years in operation, the Gold Circle era will officially come to a close in mid-November.

With the sale of the 76-unit upscale discounter to Kimco Development Corp., Gold Circle will be dismantled, with individual units sold or leased by Kimco to three other major discount chains:

- Hills Department Stores, which will lease 35 units;
- Target Stores, which purchased 31 units and sites;
- K mart Corp., which will lease two units.

Milton Cooper, president of Kimco, the Roslyn, N.Y.-based, privately held strip shopping center operator, told *DSN* that he expects to lease the remaining eight units before the end of the month. Cooper would not disclose the price he paid Campeau Corp. for the 76 units or the individual deals he made with Hills, Target and K mart.

Proceeds from the sale of the Gold Circle stores and related assets are expected to total $325 million, which includes sales from inventory liquidation, according to Campeau Corp., Toronto, which last May purchased Federated Department Stores, of which Gold Circle is a division.

The Campeau deal with Kimco does not include Gold Circle warehouses and its central offices, which will be sold separately. Also, since the $325 million figure includes expected revenue from inventory sales, the price Kimco paid for the chain would have

(Continued on page 107)

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Gold Circle's demise will redistribute discounter sales: Target gets 31, Hills 35 and K mart 2 of the chain's 76 stores. (DSN photo)

31 Gold Circle Stores Give Target Beachhead for National Growth

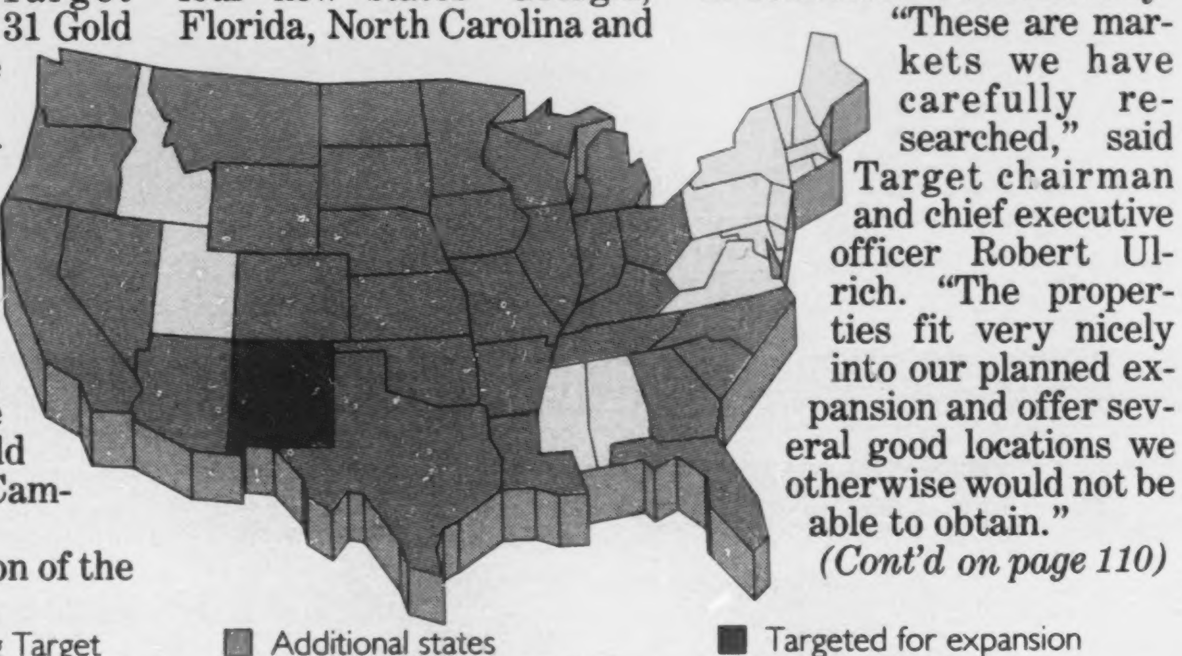
MINNEAPOLIS — In its bid to become a true national discount chain, Target Stores has acquired 31 Gold Circle stores in the Southeast.

The deal, estimated to be worth $130 million by industry analysts, was made by Target with Kimco Development Corp., which purchased the entire 76-store Gold Circle chain from Campeau Corp.

Target's acquisition of the Gold Circle stores and sites allows the chain to enter four new states—Georgia, Florida, North Carolina and South Carolina—while it also provides new territory in Tennessee and Kentucky.

"These are markets we have carefully researched," said Target chairman and chief executive officer Robert Ulrich. "The properties fit very nicely into our planned expansion and offer several good locations we otherwise would not be able to obtain."

(Cont'd on page 110)



▨ States containing Target stores prior to Gold Circle acquisition.
▨ Additional states containing Target stores after Gold Circle acquisition.*
■ Targeted for expansion by January 1989.

**Target also acquired Gold Circle stores in Kentucky and Tennessee.*

Source: DSN *research*

Hills Gains Fill-in Units For Market Dominance

Acquires 35 Gold Circle Leases

By Laura Liebeck

CANTON, Mass. — Hills Department Stores will become a dominant retail force in Ohio and upstate New York with the acquisition of 35 Gold Circle stores from Kimco Development Corp.

Hills will acquire the leases for the units later this fall and reopen them under its own banner next April.

The stores, ranging from 98,000 square feet to 100,000 square feet, are located in upstate New York, Ohio and Kentucky, offering Hills entry into four new markets: Rochester, N.Y., and Akron, Columbus and Cincinnati, Ohio.

The acquisition also gives Hills a strengthened market position in Buffalo, N.Y., Cleveland a relatively new market for the discounter and in Columbus, Ohio, where Hills has suburban locations, but none in the city proper.

"This expansion is a logical step for Hills," said chairman Stephen Goldberger. "We see these new stores as a perfect geographical fit and we hope to strengthen our existing base with the goal of becoming

(Continued on page 107)

Price Savers Confronts Price Club in Phoenix

By Pamela Krein

PHOENIX, Ariz. — Price Savers, the 15-unit Salt Lake City-based membership club chain, broke Price Club's stranglehold on the wholesale club market here last month with the debut of two greater-Phoenix units.

"Phoenix was a logical expansion from Salt Lake City," Price Savers president Thomas Grimm told *DSN*.

Price Club, the San Diego-based industry leader, also opened its fourth Phoenix club last month, and analysts expect Price Savers' new sites to be complemented by two more clubs next year. The result, said Goldman Sachs analyst Stephen Mandel Jr., will be "the most watched competitive confrontation in the industry over the next year."

(Continued on page 110)

Price Savers' first two Phoenix clubs opened last month with POS scanning capabilities. (DSN photo)

Ames Gobbles Zayre Stores; Discounting's Big 3 Now Big 4

By Peter Hisey

ROCKY HILL, Conn. — Ames Department Stores, which has barely digested the G.C. Murphy stores it purchased in 1986, took another huge gulp, buying the troubled 388-store discount store division of Zayre Corp. for about $800 million, which includes 17.6 percent of Ames common stock.

Ames ceo Peter Hollis had hinted that such a move was a possibility this summer when he told shareholders at the company's annual meeting that while Ames planned relatively conservative expansion over the next year or two, that did not rule out major expansion by acquisition. Nevertheless, few observers expected a move of such magnitude. The purchase, revealed on

(Continued on page 6)

State civil recovery statutes help discounters stem shoplifting losses —see story, page 112

Ames Acquires Zayre Stores

(Continued from page 5)

Sept. 15, creates one of the world's largest retailers, and the discount industry's traditional "Big Three" (K mart, Wal-Mart and Target) must now be considered a "Big Four."

Ames ($2.1 billion) combined with Zayre ($3.3 billion) reaches a total of $5.4 billion in 1987 sales, slightly ahead of Target's $5.3 billion. With 736 discount stores and 161 variety and specialty stores, Ames is now clearly among the top retailers in the country.

According to an Ames spokesman, the company will run the acquired stores under the Zayre name "for now. Ultimately, we will probably convert them to Ames stores." While some office procedures will be consolidated, Ames has no immediate plans to replace Zayre employees. "That's the last thing we'd do," she said. "The quality of Zayre's merchandising and other personnel was one of the main selling points in the acquisition."

A Zayre executive noted that Ames gains a significant benefit; a friendly owner of a significant block of its stock, giving the company additional shelter from corporate raiders and "time to turn the Zayre stores around, something that we didn't have." Zayre Stores lost $55.6 million in the second quarter, and has consistently lost money over the past year.

The purchase moves Ames into new markets, particularly Florida, but further confuses the retailer's strategic focus, which historically has been aimed at rural areas. The Murphy acquisition three years ago afforded Ames opportunities in some metro markets but management has publicly retained a rural focus.

According to Ames chairman James Harmon, the acquisition had been under consideration for "many months."

Hollis added that "the acquisition represents a challenge," but that Zayre's combination of a strong sales base, inexpensive prime sites and experienced management provides the ingredients to "correct recent problems and to build future value."

"The price and timing are right," Hollis added, saying that he thinks that Ames can "accelerate" Zayre's return to profitability.

Maurice Segall, chairman of Zayre Corp., noted that Zayre Stores is a "very good fit with Ames; very few of the stores compete with each other." He cited the "great difficulty" of restoring Zayre's discount division to profitability as the key to the sale, adding that the division had been a "drag on earnings, capital and management." Zayre will now be able to concentrate its energies on its profitable TJX Cos. off-price apparel operations and its two warehouse chains, HomeClub, the home center retailer, and BJ's Wholesale Club, the membership club chain.

Zayre Corp. will own about 18 percent of Ames common stock, and will place two members on Ames' board of directors, although its two nominees will be pledged to vote with management on certain, unnamed key issues. Zayre will be excluded, by agreement, from owning more than 20 percent of Ames stock for the next 10 years.

Segall also noted that no other Zayre divisions are up for sale, and that the proceeds from the sale will be used to retire $250 million in short-term debt, with at least some of the remainder to be distributed to stockholders, perhaps through stock buy-backs.

Sean Lee, last month named president and ceo of HomeClub, said he was "excited" by the development. "If anything, this enhances our ability to grow," he said.

The transaction, which has been approved by both companies' boards of directors, is subject to federal regulatory control and completion of financing arrangements, which Ames said had been made through Citibank, N.A. Ames expected finalization of the deal by the end of October.

Herb Zarkin, former HomeClub chairman and recently named Zayre Stores chairman, will stay with the division as chairman and will also become executive vp of Ames.

According to Hollis, the transaction will involve a combination of about $440 million in cash, $200 million in a block of stock convertible to Ames common stock at a conversion price of $25 per share, and about $200 million in a subordinated note from Ames.

In referring to the acquisition as a "challenge," Hollis alluded to the chain's well-publicized shrinkage problems after the G.C. Murphy purchase in 1986. An Ames spokeswoman said that the company doesn't expect similar problems this time. "Not only did we learn from the Murphy experience, but because this is a friendly takeover, we know much more about them than we did about Murphy."

FOR THE RECORD

Former Crazy Eddie chairman, Eddie Antar, is not facing criminal prosecution, as a recent *DSN* article (Aug. 22) implied. *DSN* regrets that implication. Antar is one of several respondents named by present management in a civil suit that alleges fraud and mismanagement on the part of former management. According to his attorneys, Antar has appeared in that action and has denied the allegations.

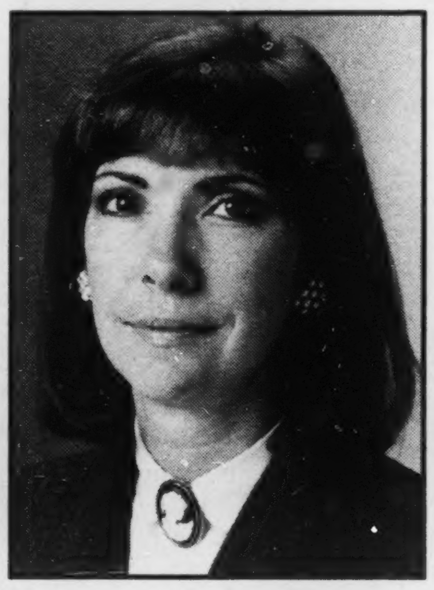
CVN Diversifies Operations, Takes Over Fashion Channel

By Arthur Markowitz

MINNEAPOLIS — CVN Cos. expects to receive final approval at presstime to operate The Fashion Channel, the bankrupt Carson, Calif.-based apparel and accessories-oriented video retailer that CVN has been managing for the past month.

CVN Cos.' operational takeover of TFC is part of the Minneapolis firm's leveraging of its teleshopping and direct mail closeout merchandising businesses to become a more diversified retailer.

William O'Neill


Jo Abendroth

The company has hired executives to fill two new positions designed to support its diversification effort. They are William J. O'Neill, senior vice president, direct marketing, and Jo J. Abendroth, vp for new business development.

CVN Cos.' C.O.M.B. closeout division, meanwhile, is testing "Down to Business" as a potential home office direct mail catalog. Using names culled from C.O.M.B.'s extensive mail order list, the home office catalog, mailed late last month, features newly available closeouts and goods originally offered in the closeouter's regular direct mail catalogs and retail stores. The catalog's future depends on the success of the initial issue.

CVN Cos. expects to receive final approval to run TFC from the U.S. Bankruptcy Court for the Central District of California in Los Angeles. The Fashion Channel filed for Chapter 11 protection in that court on July 22 after it failed to resolve mounting financial problems.

CVN received preliminary bankruptcy court approval Aug. 12 to operate The Fashion Channel. The deal is an unusual Chapter 11 agreement in that CVN Cos. didn't make any payment to The Fashion Channel to obtain the rights to use the name and broadcast on its network of about 600 cable systems, which reaches some 10 million households.

Besides providing the base for a possible bailing out of TFC, the agreement could also help United Cable Television and Tele-Communication Inc., the largest shareholders of The Fashion Channel, recoup their investment. UCT and TCI are members of the consortium of multi-cable systems operators (MSOs) that also own about a 50 percent interest in CVN Cos.

The operational takeover of The Fashion Channel will give CVN Cos. two distinct cable teleshopping shows, the original CVN program that heavily features jewelry and hard lines with a smattering of apparel, and TFC, an all-apparel and accessories show.

CVN Cos. chairman and ceo Theodore Deikel said his company's "action affirms CVN's commitment to the television shopping industry—by stepping forward with a creative solution to resolve the TFC situation."

The terms of the proposed agreement provide that:

- CVN Cos. will retain 97.5 percent of TFC's net sales, less such deductions as taxes, with the bankrupt teleshopper retaining 2.5 percent. TFC's share will jump to 5 percent of any sales in excess of $75 million annually.

(Continued on page 8)

CVN's LawPlan Is First of Its Kind

Video Retailer Offers Legal Services

MINNEAPOLIS — The Cable Value Network has become the first video retailer to offer legal services to its viewers by promoting LawPlan, a legal retailer service.

CVN viewers can sign up for the plan for an annual $119 fee. LawPlan provides basic personal, not business, legal services, ranging from preparing a will to consultation on such as matters as bankruptcy, divorce, liability, deeds and power of attorney. Subscribers will also receive a quarterly newsletter.

LawPlan, however, won't represent subscribers in legal cases. Hyatt Legal Services hopes that customers will hire the company, which has 182 offices with 550 lawyers in 22 states and Washington, D.C., for legal representation.

CVN is marketing LawPlan by running 7-minute tapes of Hyatt Legal Service founder Joel Hyatt explaining the plan, followed by a toll-free number to sign up for the service. The tapes will be run a number of times each day.

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New York Next on IKEA's Expansion Agenda

By Mary Ellen Kelly

BALTIMORE — IKEA, the three-store, European-style home furnishings retailer, will open its first New York metropolitan market store by the end of next year near what is perhaps the most traveled tract of land in the entire New York-New Jersey-Pennsylvania region.

A second New York-area site, on Long Island, is being negotiated, president Bjorn Bayley told *DSN* at the pre-opening of IKEA's first Baltimore store Sept. 8.

Steen Kanter, executive vp of development, said these store openings are part of a plan to open a total of 40 stores in the U.S. during the next 15 years. The company currently operates three stores in the U.S. and 76 stores in 18 foreign countries. U.S. sales last year were $93 million; worldwide sales topped $2.3 billion.

The New York IKEA, which should be open by the end of 1989 or the start of 1990, will be located on one of the most highly traveled transportation arteries in the tri-state area, Interstate 95, across from Newark International Airport, one of the country's largest airports.

The store represents the first time the home furnishings giant will not be in a mall environment. Executives feel the freestanding store will be able to draw more than enough shopper traffic on its own merits.

Bayley and Kanter acknowledged that several adjustments in the 220,000-square-foot store format will be needed in order for IKEA to achieve optimal performance in the region.

Additional cash registers—as many as twice the dozen being utilized at IKEA's Baltimore store—will be required to accommodate the expected increased volume.

IKEA exec vp Steen Kanter shows off rugs to reporters at opening of chain's Baltimore unit last month. The chain also revealed plans to invade the New York metro market next year. (DSN photo)

The advertising plan is not yet complete, but is expected to be of greater magnitude than the $2 million store opening marketing campaign for the Baltimore location.

Security systems are being reviewed for installation in the Newark (New York) store, Kanter said. IKEA is aware that the store is likely to draw a greater number of lower-income customers than its three other U.S. locations: Plymouth Meeting, Pa., Baltimore, and Woodbridge, Va., all in rather affluent suburbs.

Prior to the Newark store opening, IKEA will be able to test a more urban market when it opens a store in Pittsburgh, sometime next year.

The Newark store will have a 50,000-square-foot to 60,000-square-foot enclosed parking lot, monitored by security guards.

IKEA also invested heavily to ensure that its customers and employees are not subjected to any of New Jersey's well-publicized pollution problems. Kanter estimated IKEA spent nearly $500,000 to conduct soil, water and other environmental tests. About $200,000 was spent on legal fees to safeguard against possible law suits with New Jersey regarding pre-existing contaminants.

Lionel Leaps into Big Apple with City's 1st Discount Toy Store

By Richard C. Halverson

NEW YORK — Kay Cee, the kangaroo symbol of Lionel Leisure's Kiddie City toy chain, hopped into the Big Apple last month, opening Manhattan's first discount toy store.

Located in Midtown, near Macy's flagship store, the Kiddie City toy store softly opened Aug. 31 and celebrated its grand opening Sept. 15.

In a further penetration into a new market, Philadelphia-based Lionel also plans to open two stores in The Bronx, the fourth most populous borough of New York City, and another in northern New Jersey by the end of 1988.

One of the Bronx units will open by Nov. 15 in a shopping center being built in Co-op City, a complex of some 5,000 cooperatively owned apartments. Lionel expects to open the second Bronx store and another in Hanover, N.J., prior to the Christmas season, Marvin Katz, coo, said.

Even though it faces higher costs for rent, deliveries and security in Manhattan, compared to its suburban locations, Lionel will follow the same pricing structure, including running continuous red tag specials, said Joel H. Weiner, vice president, advertising and sales promotion.

Lionel projects volume in excess of $10 million from its Manhattan unit, which occupies 27,000 square feet on two floors, Katz said. That would be more than twice the $5 million volume of its average suburban store of 40,000 square feet. Lionel anticipates a higher shrink rate in Manhattan, "slightly in excess of 2 percent," than in suburban stores and is paying higher rent, but it expects to maintain margins due to a different product mix, Katz said.

(Continued on page 107)

KiDDiE CiTY TOYS
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Lionel Leisure claims its new Kiddie City is Manhattan's first discount toy store. The chain plans extensive expansion in the New York metro area, with three units slated by year-end. (DSN photo)

Full-line Discounters Achieve Double-Digit First Half Gain

Nationwide DSN Report

Retail sales at discount department stores rose 10.7 percent in the first six months of the year over the year-earlier period, outpacing sales in the entire general merchandise group, according to the U.S. Commerce Department.

Discount department stores sales were an unadjusted $32.3 billion for the first half of '88, compared to $29.2 billion for the same period in '87.

Discount department stores were the only retail category within the general merchandise group to record a double-digit sales increase between the two recording periods.

The general merchandise group includes conventional department stores, national chain department stores and variety stores as well as discount stores and miscellaneous general merchandise stores.

The entire general merchandise group recorded a sales increase of 3.8 percent for the six-month period, to an unadjusted $77.6 billion.

The only other retail store division to record a sales increase for the six months was conventional department stores. Sales at these stores rose 2.5 percent to $20 billion, unadjusted, for the period.

Both national chain department stores and variety stores recorded sales declines during the first half of the year.

Retail sales at national chain department stores fell 4.6 percent during the half, to $14.9 billion, unadjusted. Sales at variety stores fell 2.1 percent, to an unadjusted $3.7 billion.

(Continued on page 17)

Warehouse Club Concept Spreads

Automotives Club Is Business Only

ST. LOUIS, Mo. — Add automotive aftermarket products to the growing list of merchandise categories that are getting the specialty warehouse club treatment.

The Chart Automotive Group, a St. Louis distributor, has opened a warehouse club for businesses only called The Chart Club. The club site is next to the company's distributorship.

Business customers have the choice of letting Chart pick, bill and load their orders or go next door, pay a $75-a-year fee and save about 10 percent by doing it themselves and paying cash. The club is closed to the general public.

The Chart Club, which opened June 7, is an experiment patterned after Sam's Wholesale Club, said a top company official.

"The Chart Club is akin to Sam's in the way merchandise is racked and displayed," the official said, requesting anonymity. The Chart Club carries about 3,500 sku's, or several times the number in a Sam's automotive department, he said.

Where it couldn't compete on price with Sam's, the club has dropped the items, the official said.

(Continued on page 25)

MED+CLUB
ENTRANCE

MedClub, a membership warehouse club featuring medical supplies and health aids, has opened in San Diego. The club is open to consumers and medical professionals. (DSN photo)

MedClub Sells 'Wellness'

SAN DIEGO — America's first "wellness warehouse" opened here recently in the city that gave birth to the wholesale club industry.

Drawing on the expertise of a cadre of executives well-versed in the membership club industry, MedClub sells office supplies, furniture, drug sundries, fitness products, medical dressings and clothing, home health care equipment and laboratory supplies to both health-conscious consumers and medical professionals. The store also contains a pharmacy.

MedClub's carefully pruned product mix of 6,500 sku's is aimed at meeting the needs of both customer segments. The result, according to MedClub's marketing vice president Creighton Lawhead, is a "one-of-a-kind concept."

However, while unique, MedClub does compete in many categories with a variety of retailers, including discounters, drug stores, sporting goods stores, traditional membership warehouse clubs, home health care retailers and health care distributors.

Following the operating style of membership warehouse clubs, MedClub has a concrete floor, an open ceiling, steel H-frame racks, cut-case merchandise and a membership-only customer base.

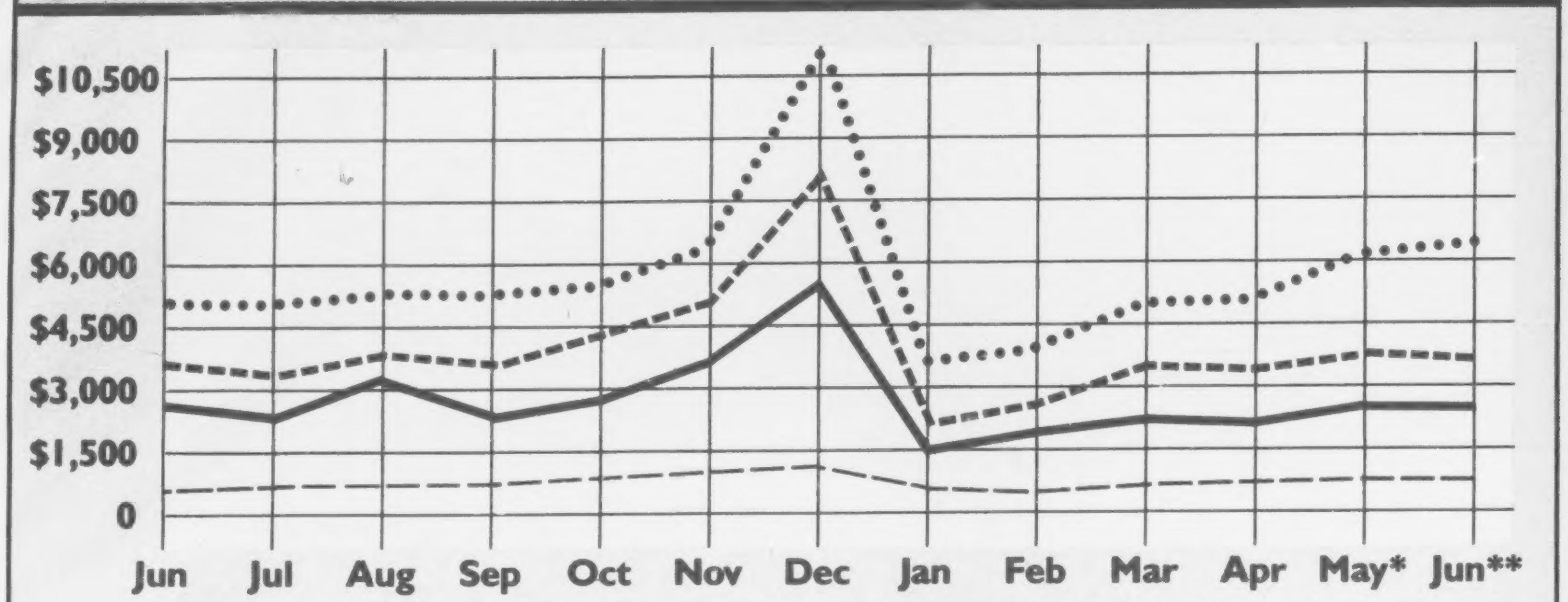
(Continued on page 25)

6-Month Discounter Sales Up 10.7%

1987-88 Discount Department Store Sales

Retail Sales for General Merchandise Group (unadjusted)

(In Millions of Dollars)



Percent Change Six-Month Sales, Jan.-June 1987 to Jan.-June 1988:

Discount Dept. Stores •••••••••	10.7%	**National Chain Dept. Stores** ———	(4.6%)
Conventional Dept. Stores ▬ ▬ ▬	2.5%	**Variety Stores** — — —	(2.1%)

**revised* ***preliminary*

Source: U.S. Commerce Dept., August, 1988.

(Continued from page 7)

In June, retail sales at all retail divisions in the general merchandise group recorded sales declines, the least of which was posted by discount department stores.

Sales at discount department stores in June fell 1 percent from May to an unadjusted $6.1 billion. Compared to June 1987, however, sales at discount stores jumped by 12.5 percent.

Sales were not as robust at the other retail outlets, according to Commerce Department figures.

June sales within the entire general merchandise group fell 2.5 percent to an unadjusted $14.35 billion, 5.7 percent ahead of June 1987.

Sales at conventional department stores also fell in June from May, by 4 percent to an unadjusted $3.6 billion. But sales were up by 5 percent from last June.

Both national chain department stores and variety stores recorded declines for the May-to-June and June-to-June recording periods.

Retail sales fell 2 percent in June from May at national chain department stores, to $2.7 billion, unadjusted, and by 3.9 percent from June 1987.

Sales at variety stores dropped 2.5 percent in June from May, to an unadjusted $643 million, down 1.7 percent from last June.

Overall, retail sales edged up 0.5 percent in June to $137 billion, unadjusted. Not including automobile sales, retail sales were even with May, at $103.6 billion, unadjusted.

June's sales declines were on par with normal seasonal shopping patterns, according to a Commerce Department spokesman.

For some merchandise departments, particularly apparel, the June sales decline was just more of the same.

Sales at apparel and accessory stores fell 2.3 percent in June to $6.37 billion, unadjusted, below both the May and April sales levels.

There were some bright spots in June, however.

Sales at book stores surged 9 percent in June from May, to $486 million, unadjusted. Sporting goods and bicycle shops also increased sales, up 4.7 percent in June from May, to $1.38 billion, unadjusted .

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Hard Lines

Oshman's is set to open two more SuperStore units, such as this one in Princeton, N.J., indicating that the sporting goods megastore concept is ready to take off.

Sporting Goods Giants Score Extra Points

By Richard C. Halverson
Nationwide DSN Report

After spending 18 years in the nest, the fledgling sporting goods megastore concept is ready to take wing and should be flying high by next spring.

That's when K mart opens its first—and long delayed—Sports Giant warehouse membership club of 50,000 square feet.

At least nine sporting goods specialty stores, either warehouse-style or conventional—in the 30,000-square-foot to 50,000-square-foot range—are set to open this fall. At least 16 more will follow in 1989, starting with four next spring. As of presstime, some 28 stores that fit the

(Continued on page 102)

Top Sporting Goods Specialty Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1987	1986		1/88	1/87	
Herman's, Carteret, N.J.	$762	$630	21.0%	242	200	10,000
Thrifty Corp., Los Angeles, Calif.	494	359	37.6	160	149	NA
Oshman's, Easton, Texas	333	323	3.1	213	214	10,000
Sportmart, Niles, Ill.	149	99	50.5	18	12	40,000
Academy, Houston, Texas	64	58	10.3	22	18	NA
Irving's Sport Shops, Springfield, Va.	15	13	15.0	18	18	4,000

Herman's includes Sunset Sports.

Thrifty Corp. includes Big Five, Dave Cook, Gart Bros., Michigan Sporting Goods and Casey's Sporting Goods chains.

NA—not available

Source: DSN research

MARKETWATCH

CHICAGO — **Trak Auto**, Landover, Md., has picked the sites for 23 more stores in the Chicago market, which will push its store count here to 93. When built, the new stores will give Trak Auto a total of 550,000 square feet of retail space, or more than twice that of its nearest competitor in the automotives aftermarket. Trak Auto continues to seek additional sites, a spokesman said.

* * *

NORTH HAMPTON, N.H. — **Wisconsin Toys**, Milwaukee, Wis., opened its 33rd Toy Liquidators unit in a factory outlet mall here. The 6,000-square-foot store features brand name toys at closeout prices. In June, Wisconsin Toys opened a store in the Carolina Pottery Outlet Center, Smithfield, N.C. The company also operates closeout stores under the name Toys Unlimited.

* * *

ROCHELLE PARK, N.J. — **Toys "R" Us** announced that second quarter earnings spurted 32.8 percent to $685.8 million from $516.6 million in the same quarter last year. Same store sales gained 16.6 percent. For the first half, sales gained 34.6 percent to $1.33 billion from $990.6 million in the first six months of 1987. TRU operates 314 toy stores in the United States, 37 international stores, 112 Kids "R" Us children's clothing stores and four department stores. On July 29, Kids simultaneously opened 28 stores, including its first units in Southern California.

* * *

CHICAGO — The **National Sporting Goods Association** will hold its annual fall show October 20 to 22 at McCormick Place in combination with the **Imprinted Sportswear Show**. NSGA will occupy the East Hall at McCormick Place; both shows will share the North Hall. NSGA president and chief executive officer James Falinek said that there will be a "natural crossover of attendees between the shows," and "attendees will be able to find new products and companies more efficiently." Bobby Knight, head coach of Indiana University's men's basketball team, will be the breakfast speaker October 21. For additional information, call the National Sporting Goods Association at (800) 843-9090.

* * *

NEW YORK — Organizers of the **National Stationery Show** announced the addition of two new divisions debuting at the 1989 event: Home Office Products and Prints and Posters and Artists Supplies. Both new sections will be formally introduced at the show, scheduled for May 21 to 24 here at the Jacob Javits Convention Center.

Sporting Goods Megastores Continue Expansion

(Continued from page 101)

megastore criteria of size and selection were operating.

Sports Authority, Fort Lauderdale, Fla., appears to be leading the expansion flight. In October, it will open two stores in Tampa, Fla., on top of its first units in Fort Lauderdale and North Miami. Next spring, it intends to open stores in Clearwater and West Palm Beach, Fla., said president Jack Smith, followed by six others in Florida through next fall. All stores will occupy 40,000 square feet.

By September 29, Oshman's is expecting to open two more of its SuperSports USA stores of about 30,000 square feet, one in Carle Place, N.Y., and one in Union, N.J. In '89, it will open four more SuperSports units, based on its Princeton, N.J., prototype.

Also in October, Sports Town, Atlanta, will open three more sporting goods warehouses, all in the Atlanta market, said president and founder Tom Haas. The chain now operates two of the 50,000-square-foot warehouse clubs, both of which are located in Atlanta.

Sportmart, which has been operating 40,000-square-foot stores since 1970 from its Niles, Ill., base, will open two more in Southern California, pushing its count to 21.

One of the Sportmart sites will be across the street from the San Bernardino warehouse club of All American SportsClub, said Robert C. Cole, vice president, general counsel of Sportsmart.

Head-to-Head Competition

Apparently, this will be the first head-to-head encounter of sporting goods megastores. Operators heretofore have picked their markets to avoid direct competition, but All American SportsClub is presently in a vulnerable position.

The chain fell victim to overexpansion and filed Chapter 11 last spring. Since then, SportsClub has closed two of its eight California clubs and scrapped plans to open four others in Phoenix, Ariz.

Founder Robert J. McNulty said he has changed his mind about trying to sell the chain and expects to emerge from Chapter 11 next February. The deadline for filing a bankruptcy reorganization plan is Oct. 15, he said.

"It's premature to talk about resuming expansion," he said.

Instead, SportsClub is upgrading existing stores by revamping the athletic shoe departments to a full-service concept, McNulty said. The first reformatted store, Torrance, Calif., will be completed around Oct. 1, he said.

Stepping up its expansion scale from three new stores in 1988, Sportmart expects to open next year "several more" megastores in each of its markets, Chicago and Los Angeles, Cole said.

And, adding emphasis to the sporting goods megastore trend, MC Sporting Goods, Grand Rapids, Mich., now part of the Thrifty Corp. family of sporting goods chains, expects to open in 1989 four more of its large stores in its Michigan, Ohio and Illinois market areas, executive vice president Raleigh Finklestein said. MC Sporting Goods already runs 30,000-square-foot stores in Lansing, Mich., and in the Detroit suburb of Troy, Mich.—K mart's hometown.

K mart originally announced it would open the first of four planned sporting goods membership warehouse clubs late this summer. But problems locating sites delayed the first openings until next March or April, a spokeswoman said. K mart is still looking for two more test unit sites.

K mart's first Sports Giant clubs, offering some 35,000 sku's, will be located in shopping centers in Madison Heights and Livonia, Mich., both in the Detroit market.

Denver-based Gart Bros., also part of Thrifty Corp., is planning to open 75,000-square-foot Sports Castle units in St. Louis and Kansas City, Mo. It now operates a Gart Bros. Sports Castle store in Denver, opened 18 years ago, and one in Salt Lake City.

The two planned stores will be called Casey's Sports Castle, incorporating the name of the chain Gart acquired before Thrifty bought it. The company has not decided exactly when the new store will open, vice president Ken Gart said.

Herman's, the national chain recently acquired by Dee Corp., and which dominates the sporting goods industry with 1987 sales of $762 million from 242 stores, is one chain that is bucking the megastore bandwagon.

Herman's, Carteret, N.J., follows a "very successful, dominant strategy" of operating stores averaging 10,000 square feet, said George Walker, vice president, sales promotion. For the foreseeable future, Herman's will stick to its own formula, Walker said, and entertains no plans to open megastores.

Those chains that are opening megastores are avoiding areas of Herman's strength,

(Continued on page 103)

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Sporting Goods Megastores Expand In Non-Competitive Market Areas

Sports Authority, Ft. Lauderdale, Fla. leads the megastore expansion parade, expecting to open 10 more by next fall. (DSN photo)

(Continued from page 102)

Walker said, with the exception of Oshman's, which with its SuperSports megastore, invaded Herman's home territory of northern New Jersey.

Megastore pricing strategies range from the deep discounting of clubs such as Sports Town to the everyday low prices of Sports Authority to the highly promotional pricing of SuperSports.

The merchandising concept also varies from the warehousing presentation of Sports Town to the high tech (and high cost) glitz of SuperSports (see accompanying profile, page 105).

Those operating warehouse-type stores also differ over membership fees. Sports Authority has no membership fee, while All-American SportsClub charges $10. Sports Giant also plans to charge a fee of "less than $10."

Sports Town charged a $5 fee when it opened its first membership club, Oct. 15. But customer opposition prompted it to scrap its fees after several weeks, Haas said.

SportsClub intends to stick with its $10 fee, McNulty said. Such fees represent 2 percent of gross, he said.

Those who acknowledge being a discounter, such as Sports Town, are encountering difficulties in acquiring key brands, including Reebok and Nike, which dominate the vital footwear category.

Sports Town carries neither Reebok nor Nike. "I'm proud to be a discounter," said Haas, who was the first chief operating officer of SportsClub, but declined to comment on why he doesn't carry the two top athletic shoe brands.

Obtaining Branded Goods

When SportsClub declared bankruptcy, McNulty blamed difficulties in obtaining brand goods for part of his financial problems. Since then, he has made progress in dealing with vendors, McNulty said. Except for Reebok and Nike, SportsClub now carries almost all major brands of footwear, including L.A. Gear.

"It remains to be seen" whether K mart's Sports Giant will carry Reebok and Nike shoes, a K mart spokeswoman said.

"It's tough to predict whether K mart" will be able to obtain Reebok and Nike, said Jim Spring, president of NPD/Smart, a marketing consulting firm in Fort Washington, N.Y. "K mart's power is overwhelming in a little industry like sporting goods."

Yet, image-conscious vendors, such as Reebok and Nike, may just bide their time and watch how Sports Giant merchandises, Spring predicted. Demand is high, and already there is plenty of price promotion, he said.

"Some vendors are more particular how their products are displayed and promoted," said Cole, of Sportsmart. "It all has to do with how you deal with your vendors. If you're a discounter, you have trouble getting merchandise."

It's going to take a couple of years for the megastore concept to prove it can succeed, said Tom Doyle, director of research for the National Sporting Goods Association, a retailer trade group. Product turnover will be a key factor in success or failure, he said.

Consumers may buy a TV for every room in the house, but they'll buy only one exercise cycle for their home, Doyle said. Multiple sales aren't there, he said.

The emergence of the sporting goods megastore will prompt the development of more niche marketing, predicted NSGA's Doyle. As an example, he cited Recreation Equipment, based in Seattle, which specializes in selling cycling, camping and mountaineering equipment in 12,000-square-foot stores—or larger than the average, "full-line" Herman's store.

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Kroger Wards Off Hafts?

CINCINNATI — Price Saver parent Kroger has come out swinging in reaction to becoming the latest potential takeover target of the Haft family.

In a pre-emptive strike to ward off Herbert Haft and his son, Robert, Kroger announced that it is considering offering its present stockholders a special dividend of $40 in cash and a deferred interest bond worth $8. Through such a strategem, Kroger hopes that it will remain a public company, owned by the present stockholders.

That announcement came Sept. 13, the day after the Securities and Exchange Commission confirmed that it has given the Hafts antitrust approval to buy an unspecified position in Kroger.

Earlier this year, the Hafts, which control Trak Auto and Crown Books, got SEC permission to buy $15 million stakes in Zayre and F. W. Woolworth. But they never followed with a tender for them, as they previously had for Bradlees' parent, Stop & Shop. To fend off the Hafts, Stop & Shop management took the company private in a $1.1 billion leveraged buyout. Then to pay down its massive debt, Stop & Shop sold to the Hechinger home center chain the leases for 58 Bradlees stores for $118 million. (See *DSN*, Sept. 12, page 1).

Price Savers and Price Club Face Off

(Continued from page 5)

In a recently released report on the warehouse club industry, Mandel described Phoenix as a growing market, but cautioned that the area's anticipated eight warehouse clubs (four each for Price Club and Price Savers) "will [result in] only 240,000 people per warehouse, making it a more saturated market [at least by this measure] than Southern California."

Despite that tentative outlook, early results at the two Phoenix-area Price Savers created "one of the most successful [soft] openings in our history," Grimm said.

Grimm cited accessible and visible locations, Price Saver's more retail-oriented approach to the membership club business, and the market's receptiveness as the key reasons for the early success. "We are looking for very big things out of Phoenix . . . and we continue to examine other [growth] possibilities," he said.

Analyst Mandel also cited Price Savers' consumer slant as a factor that may enable it to carve a successful niche in this sun-baked market. "We believe it likely a strong retail-oriented warehouse club operation like Price Savers can profitably coexist with an already dominant Price Club and its wholesale merchandising orientation," he said.

Price Savers, is also among the industry leaders in utilization of technology. Both of Price Savers' new Phoenix-area stores opened with point-of-sale UPC scanning capabilities, and as of this month, all Price Savers' warehouses are using the system.

Grimm said scanners speed register time and reduce errors, while enabling quick inventory analysis at the warehouse and corporate levels. The next move will be to start scanning members' cards instead of manually inputting the information.

In addition to the POS scanners, Grimm said the warehouses are also equipped with hand-held scanners for verification and checking of inventory on the warehouse floor.

The two Phoenix locations also opened with optical departments, what vice president of operations Kevin Campbell calls: "One of the most dramatic areas to show a value." Campbell said the chain is now operating five optical centers, but is still evaluating whether the service will be rolled out to all locations.

The chain's next opening will be in Florence, Ky., in October. Grimm said Price Savers, with volume expected to reach about around $600 million this year, will be able to absorb all of its opening costs this year, and be profitable at the same time.

Target Buys 31 Gold Circles; Poised for Nat'l Expansion

(Continued from page 5)

Target, which would not confirm the purchase price, said the acquired locations—currently operating as both Gold Circle and Richway stores—will be completely remodeled and then opened as Target stores next spring.

Los Angeles retail analyst Thomas Tashjian of Seidler Amdec Securities said he expects the chain will spend an additional $66 million in transition expenses.

The sites range in size from 75,000 square feet to 130,000 square feet with the average running at about 94,000 square feet—just under the 100,000-square-foot Target prototype, according to Target spokesman George Hite.

Hite said the stores will be easier to remodel than the 51 Gemco's the company acquired in 1986, since these latter locations required the removal of some grocery store fixtures and plumbing.

The acquisition was an "opportunity we couldn't afford to pass up," said Hite, who added, "They are not only in good markets, but also in good locations in those markets."

The new territory places Target in a competitive market, where top discounters Wal-Mart and K mart both operate. Hite acknowledged that the Southeast area is a tough market, but he said "there is nobody there like us. We feel our traffic record would suggest we will do well even in competitive markets."

"Target is different enough to succeed," agreed N. Richard Nelson Jr., retail analyst with Duff and Phelps in Chicago. "Target will be able to mesh these stores very well from a geographic and operational standpoint."

Nelson said existing area distribution centers and knowledge gained from prior acquisition changeovers should enable Target to make a smooth transition when the chain opens the stores next year. The out-of-stock problems Target faced in 1987, when it opened the former Gemco's, will probably not be repeated in the Southeast.

Currently, Target operates 332 stores in 26 states and the chain expects to have 341 stores in 27 states by January. Growth during the remainder of this year will place Target in New Mexico for the first time, and additional stores will be added to the chain's portfolio in Michigan, Washington state and California.

K mart has units in 48 states and Wal-Mart operates stores in 23 states.

Target said the Southeast store openings next spring will not affect the other planned '89 openings. Although Hite said next year's entire schedule has not been announced, he did report that 22 stores will open in February and July, primarily in Michigan and the Pacific Northwest markets.

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Spurned Takeover Offers Put Catalogers in Play

Nationwide DSN Report

The takeover frenzy has finally hit the Big Two catalog showrooms—Best Products and Service Merchandise.

Best has turned down as "inadequate" a $522 million offer from an undisclosed party to buy all its outstanding common stock for $21 a share, but is "exploring strategic options" to enhance or maximize shareholder value, including "a possible sale of the entire company."

At Service, a management group, headed by president Raymond Zimmerman, decided at presstime to call off a proposed leveraged buyout of the cataloger at around $13.50 a share. The announcement of the buyout—valued at about $460 million—triggered a run-up in Service's stock to a new high of just under $15 before the shares fell back to the $13 to $14 range.

Any company taking over either cataloger would have to directly supply the financing. Neither Best nor Service has any subsidiary business nor do they own a large amount of real estate that could be sold. This situation had

(Continued on page 156)

Ames Applies Tourniquet

Risky Acquisition Puts the Pressure On: Hollis Unveils Plan to Staunch Zayre Red Ink

By Peter Hisey

ROCKY HILL, Conn. — Faced with the difficult task of integrating the troubled 388 Zayre stores into his company's operations, Ames president and ceo Peter Hollis introduced a six-point plan to restore the Zayre stores to profitability.

Under the plan, Ames will concentrate on balancing everyday low prices and promotional pricing, narrowing and deepening the product mix, cutting out-of-stocks, becoming more fashion-forward, cleaning up the stores and weeding out "under-performing" stores.

Hollis has conceded that the mid-September acquisition has an element of risk. Ames will be attempting to turn around one of the discount industry's institutions, one that has so far resisted the best efforts of a tough, experienced Zayre management team.

Can Ames (and Hollis) do what industry pioneers Sumner and Stanley Feldberg and Maurice Segall couldn't? Ames' answer is yes.

"We see Zayre as being a major contributor to our future profits," Hollis told an an-

(Continued on page 156)

Specialty Megastores Multiply

Office Warehouse Joins Bandwagon

By Laura Liebeck

VIRGINIA BEACH, Va. — The burgeoning office products supply business has a new player: Office Warehouse, a retail venture partly owned by chemicals giant, W.R. Grace, which will open its first unit here in December.

The new chain was founded by Bernard Kossar, a former Grace executive who was most recently chief executive officer of Home Quarters Warehouse, a warehouse-style home improvement chain.

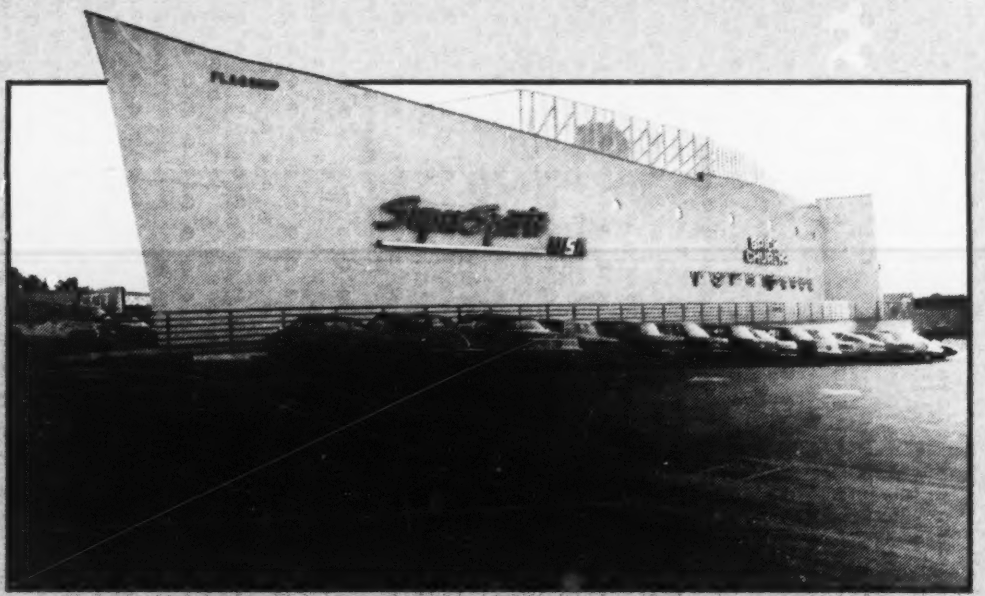
Office Warehouse plans to open 10 more stores throughout Virginia, North Carolina and South Carolina by the end of 1989, according to spokesman J. Larry Pacey, vice president of marketing.

The development of Office Warehouse marks the re-entry of W.R. Grace into the retail sector.

Grace was a major player in the home improvement business before it sold Channel Home Centers and Home Quarters Warehouse to Hechinger, a home improvement chain, last December.

Both companies declined to disclose the extent of Grace's interest in Office Warehouse.

(Continued on page 28)



The newest SuperSports shares a berth with CE retailer Brick Church in the Flagship Building, Union, N.J. (DSN photo)

SuperSports Set to Add 2 More Units

By Richard C. Halverson

UNION, N.J. — Oshman's was set to open in October two more of its SuperSports USA sporting goods megastores. The new units, scheduled to celebrate grand openings Oct. 6, are in Union, in northern New Jersey, and Carle Place, N.Y., on Long Island. Both are located within the New York metro market—and in the backyard of sporting goods industry leader Herman's, Carteret, N.J.

Their openings come just a year after Oshman's opened its first SuperSports unit in Princeton, N.J. A fourth unit is under construction in Smithtown, N.Y., also on Long Island. Oshman's is negotiating for a fifth site in Paramus, N.J., said Bob Zetelski, vp, hard lines merchandising.

In an interview last month at an industry pre-opening reception, Zetelski projected that Oshman's will be operating 25 SuperSports stores by 1992. All will be in the Northeast, far from its Houston home base.

"You don't want to drop an atomic bomb on your own stores [conventional Oshman's units of about 12,000 square feet]," Zetelski said. "There's not much future in that, so you go somewhere else."

(Continued on page 28)

Fashion Plays Second Fiddle To Future of Discounting

Few Execs Wowed by MAGIC Offerings

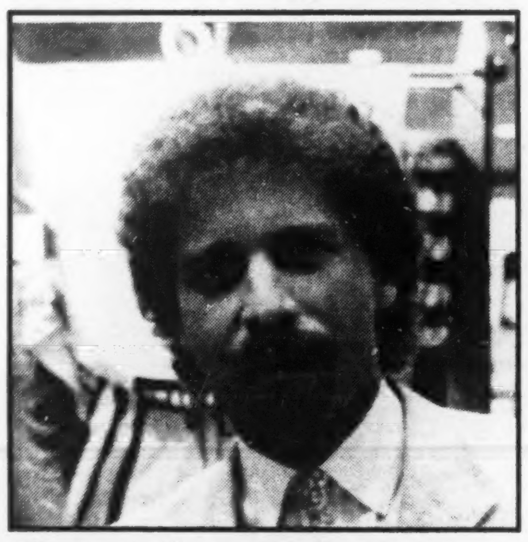
By Kenneth M. Chanko

LOS ANGELES — With no strong fashion direction or hot new item on the horizon in men's wear, the talk in the aisles among discounters at last month's Men's Apparel Guild in California show was about the changing face of the discount industry.

With the imminent demise of Gold Circle—with its stores set to be divided among three other discounters—and Ames Department Stores' acquisition of the Zayre discount store chain, merchandising executives mused about the industry's future.

Most said they weren't surprised by recent developments.

"This kind of thing's been going on for the last couple of years now," said the president of a regional discounter, who asked to remain anonymous. "Cook, Murphy's, Gemco, Danners. And who knows how much longer Heck's will be around."



Zayre activewear buyer Bruce Bressler at MAGIC: 'Right now, at least, it's business as usual,' following Ames' acquisition of the chain. (DSN photo)

(Continued on page 28)

Lechmere to Sell on Prodigy; System Adds 4 New Markets

By Arthur Markowitz

WHITE PLAINS, N.Y. — Lechmere, within the next 30 days, will become the second discounter to use PRODIGY, the interactive computer shopping and information service that earlier this month became available in four additional markets.

K mart was the first discounter to tie into PRODIGY. The chain set Feb. 1, 1989, as the target date for the its debut on the service (see *DSN*, Aug. 22, page 1).

Lechmere expects to start merchandising on PRODIGY later this month or early in November. Unlike K mart, which plans to use PRODIGY mainly as an institutional advertising vehicle, Lechmere will actually sell goods through the service.

The signing up of Lechmere, supermarket wholesaler Nash Finch and a number of other retailers and service providers came as PRODIGY earlier this month:

- Inaugurated a 15-month, $30 million national advertising

(Continued on page 156)

SPECIAL REPORT

1988 Top Brands—Part I: Store Manager Survey

MARKETWATCH

Big Bear Taps Chief for Hypermarket Div.

COLUMBUS, Ohio — Big Bear Plus, the discount store/supermarket combination experiment operated by Harts' parent, Big Bear Stores, named John Hill to head up the hypermarket-type operation. Hill was promoted from a food merchandiser position with Big Bear. Big Bear Plus will open its fourth store next month in Wapakoneta, Ohio. The Wapakoneta unit will be the first Big Bear Plus unit that did not result from the conversion of adjacent Big Bear supermarkets and Harts into the new prototype. The new store will be considerably smaller than its 100,000-square-foot to 140,000-square-foot predecessors, occupying 75,000 square feet in a former Cook United site.

Three Discounters Expand in Pacific NW

SEATTLE — Fred Meyer, ShopKo and Target continue to expand in the Pacific Northwest. Longtime area leader, Portland, Ore.-based Fred Meyer will open a new full-size superstore this November in Kent, Wash., while Minneapolis-based Target will open two discount stores this fall in Washington state and additional stores in the Pacific Northwest next year. Green Bay, Wis.-based Shopko has announced it will open stores in Kennewick and Walla Walla, Wash., next summer. Shopko first entered the Pacific Northwest last year, while Target opened its first group of stores in the area in July.

Schultz Bros. Shutters All Retail Operations

LAKE ZURICH, Ill. — Schultz Bros. Co., a privately held chain of 51 discount and variety stores in Wisconsin, Illinois, Indiana, Iowa and Minnesota, is liquidating its retail operations. James Ryan, director of personnel, said 1,200 employees at the company's stores, headquarters and distribution center will be affected by the closings. The action was taken because the company continued to suffer substantial continuing losses in its retail operations despite major restructuring of management and merchandising philosophy over the past two years. According to Ryan, the company is negotiating with several discounters regarding the possible sale of its 16 larger (30,000 square feet to 50,000 square feet) discount stores and with a number of investment groups over its 35 smaller (8,000 square feet to 12,000 square feet) variety stores. The 87-year-old retailer posted $65 million in sales last year.

Cataloger W. Bell Posts Turnaround

ROCKVILLE, Md. — Cataloger W. Bell made a major turnaround in its operation, going to a $1.2 million profit on $117.8 million in sales for the fiscal year ended June 25 from a net loss of $8 million on $129.9 million in volume in the previous fiscal year. A key factor in the turnaround was the closing of its five-store Houston division, which produced an extraordinary credit from utilization of net operating losses of $459,000 on $11.2 million in sales. Bell's 18 ongoing showrooms in the fiscal year generated a net income of $706,000 on $117.8 million in volume.

BJ's Offers Preferred Member Cards

NATICK, Mass. — BJ's has begun offering group members a preferred membership card that costs $30 a year—the same as for business members—and enables them to buy merchandise at the listed wholesale price, rather than the 5 percent surcharge levied on free group member cards. An additional preferred member card costs $10 annually. BJ's first tested its Inner Circle preferred member card at its Smithtown, N.Y., store. BJ's was among the few membership clubs that didn't offer a preferred card.

Jewelcor to Shutter Texas Units

WILKES BARRE, Pa. — Jewelcor Jewelers & Distributors expects to close its four Texas showrooms at the end of the month to reduce its store count to 11 units. The cataloger cited the weak Texas market as the reason for shutting the three units in Fort Worth and one in Austin. Sales at the four showrooms had dropped from about $36 million in 1984 to a projected $20 million this year, with mounting losses, Jewelcor president Mark Holtzman said. Jewelcor's future expansion, likely to begin next year, will be in the Northeast, particularly New Jersey and Pennsylvania, where it has most of its stores, he added.

TRU Sells Off Remaining Dept. Stores

PARAMUS, N.J. — Toys "R" Us sold its two-unit department store division to management and other investors for an undisclosed sum. The stores involved in the leveraged buyout are the Boston Store in the Albany-Schenectady, N.Y., area and the Fair, Flint, Mich. The two department stores were all that remained of Interstate Department Stores, from which TRU evolved after Interstate emerged from Chapter 11 bankruptcy in 1976. TRU also announced it expects to log a pretax gain of $2 million on the sale during its third quarter ending Oct. 30.

Antonini Squashes Buyout Rumors; 'No Restructuring Planned,' He Says

TROY, Mich. — K mart chairman Joseph E. Antonini denied a published report that he was negotiating with takeover specialist Kohlberg, Kravis & Roberts to purchase the $25.6 billion discounter and take the company private.

Antonini also rebuffed speculation that he would restructure K mart to fend off a corporate raid. The K mart chairman released a statement declaring that there "had been no such talks and no restructuring planned."

A spokesman for Kohlberg, Kravis & Roberts declined to comment, saying the firm does not comment on rumors. K mart spokesman Robert Stevenson, vp of governmental affairs and public relations, took a similar position.

USA Today reported on Sept. 23 that KKR was acquiring K mart stock, possibly in preparation for a takeover.

KKR is widely known as the biggest specialist in leveraged buyouts, but is more commonly viewed as a friendly suitor.

Most recently, KKR made an unsolicited bid to acquire Kroger, the Cincinnati-based supermarket chain (see story) and is attempting to buy book publisher Macmillan Inc.

Initially, K mart stock rose sharply in active trading in response to the KKR rumor but fell back to normal levels within days of the report.

Several retail analysts were split on the feasibility of a KKR takeover of the retail giant, the second-largest retailer in the country.

Jack Siebald, vp at Salomon Brothers, called the prospect of the KKR takeover of K mart "highly unlikely." But Fred Wintzer, analyst with Alex. Brown & Associates, thought the proposal was "a possibility at first."

K mart is vulnerable, said Wintzer, because of its real estate holdings and its old and very valuable store leases. In addition, K mart stock has historically traded at far below book value.

However, Siebald said that K mart's mammoth size would require an almost prohibitive amount of capital, at least $10 billion and as high as $13 billion, by some industry estimates, making it an awesome undertaking and an unlikely takeover candidate.

Hurricane Gives Discounters Whirlwind Sales

Consumers Storm Stores for Basics

BROWNSVILLE, Tex. — Early preparations, such as fortifying inventories and boarding up store front windows, enabled most southern Texas discounters to avoid heavy damage from Hurricane Gilbert and even capitalize on a whirlwind of emergency buying by area residents.

Wal-Mart, K mart and other chains with stores in markets affected by the storm said units were closed in compliance with requests by city officials, but were reopened shortly afterward.

Wal-Mart closed 14 stores in southern Texas, but "experienced extremely good sales before and during the storm," said Stacy Duncan, company spokeswoman. She said stores closed for a short period to insure the safety of personnel and to comply with local mandates. Food sales at Sam's Wholesale Clubs also experienced a significant increase.

Area K mart stores also experienced "brisk" sales during the days just prior to the storm, according to chain spokeswoman Leslie Kota.

Leonard Johnsen, vice president, operations at Abilene, Kan.-based Duckwall-ALCO, said the chain's two stores in the threatened area also experienced a pre-hurricane sales surge, but sales dropped below normal levels once the storm passed.

"Our customers evidently spent the disposable income they had in preparation for the storm. Once it was over, they had nothing left to spend," Johnsen said. The two southern Texas ALCOs were closed for two days.

Kroger to Spin Off Price Savers Club

CINCINNATI — Kroger will spin off its Price Savers Wholesale Warehouse Club as part of a restructuring plan aimed at fending off takeover attempts by Kohlberg, Kravis, Roberts & Co. and the Dart Group.

Price Savers, a 16-unit warehouse club operation headquartered in Salt Lake City, Utah, will be acquired by an investment group composed of current Price Savers management and led by president Tom Grimm.

"We're very excited about the opportunity," said Grimm, who declined to disclose the purchase price.

The investment group also includes Kroger, which intends to maintain a 20 percent stake in Price Savers, Goldman, Sachs & Co. and Broad Street Investment Fund I, L.P., of which Goldman Sachs is the general partner.

Price Savers collected $300 million in sales last year from 12 units, six of which were operating for the entire year.

This fiscal year, which ends on Dec. 31, should produce slightly less than $600 million in sales, said Grimm.

The sale of Price Savers is part of a program to raise $333 million in after-tax proceeds from the divestiture of various store sites and real estate holdings.

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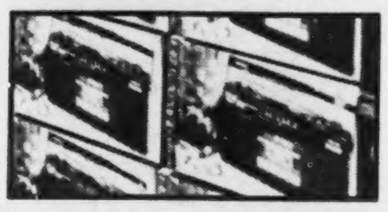
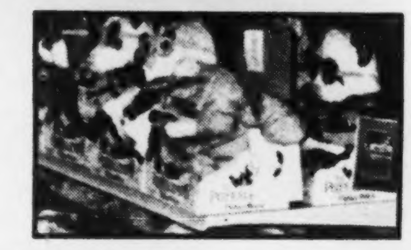
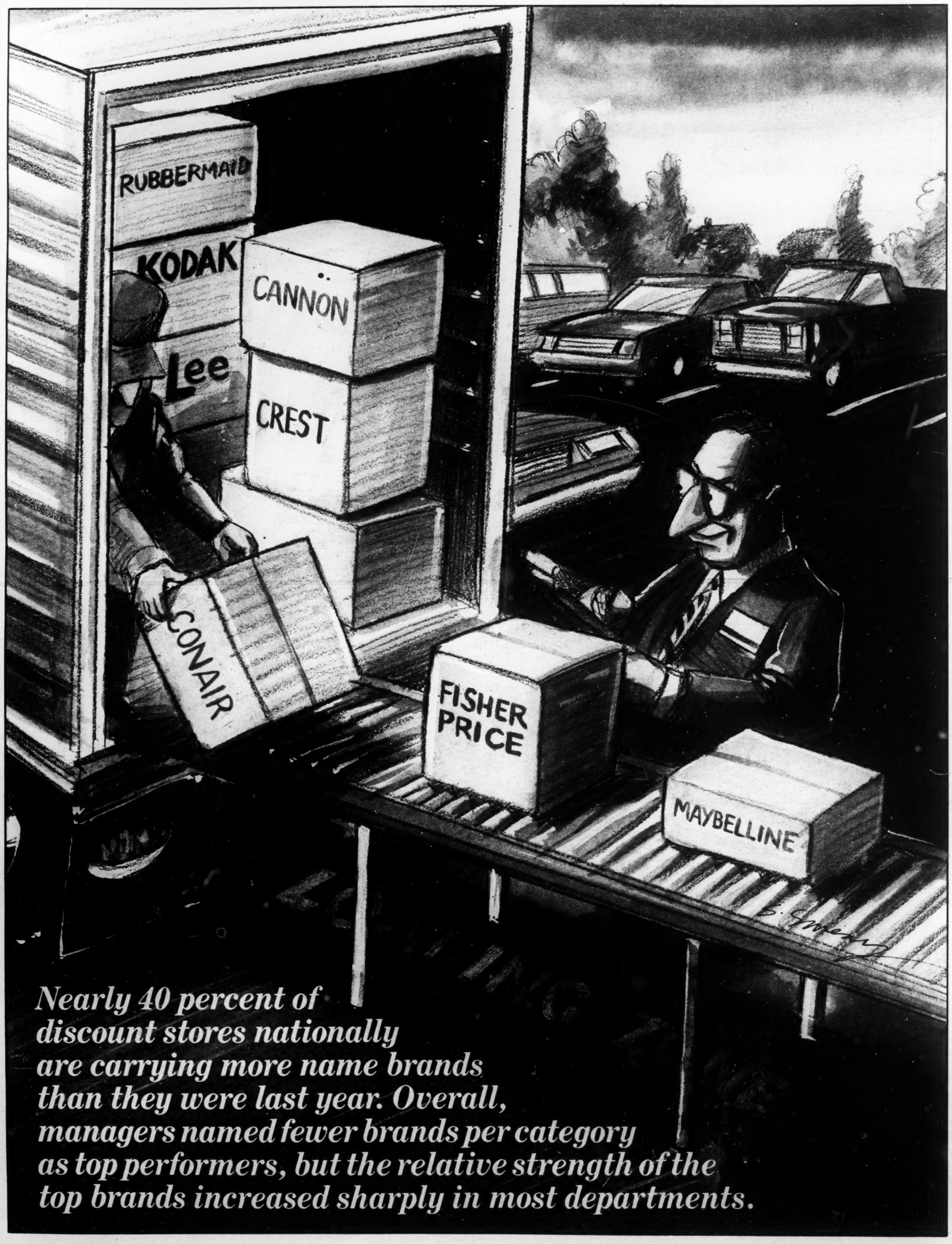




TOP **BRANDS**

Part I: Store Manager Survey


RUBBERMAID
KODAK
CANNON
Lee
CREST
CONAIR
FISHER PRICE
MAYBELLINE

Nearly 40 percent of discount stores nationally are carrying more name brands than they were last year. Overall, managers named fewer brands per category as top performers, but the relative strength of the top brands increased sharply in most departments.

Name Brand Growth Continues at Even Pace

By Peter Hisey

The decline in the growth rate of brand name presence in discount stores leveled off this year, after national brand growth fell significantly in 1987 compared to 1986.

Nearly four out of 10 store managers reported that the number of name brands carried in their store is greater in 1988 compared to a year ago, an exclusive poll sponsored by *Discount Store News* and conducted by Chicago-based market research firm Leo J. Shapiro & Associates revealed.

That figure is identical to the number of managers citing name brand growth a year ago, but 9 percentage points lower than reported in both 1985 and 1986. In '85 and '86, nearly half of all discount store managers surveyed said their stores were carrying more name brands than the previous year.

The survey, which was conducted in July, quizzed 304 managers of both conventional and upscale discount stores around the country. The managers were asked to name the best performing brands in each of 17 categories, from household cleaners to ladies' apparel. Then, they were asked why they chose those particular brands (see story, page 43).

Mentions Decline Slightly

Overall, brand mentions declined slightly, as managers named fewer brands per category (see graph) compared to past years. However, the relative strength of the top brand names increased sharply in most categories.

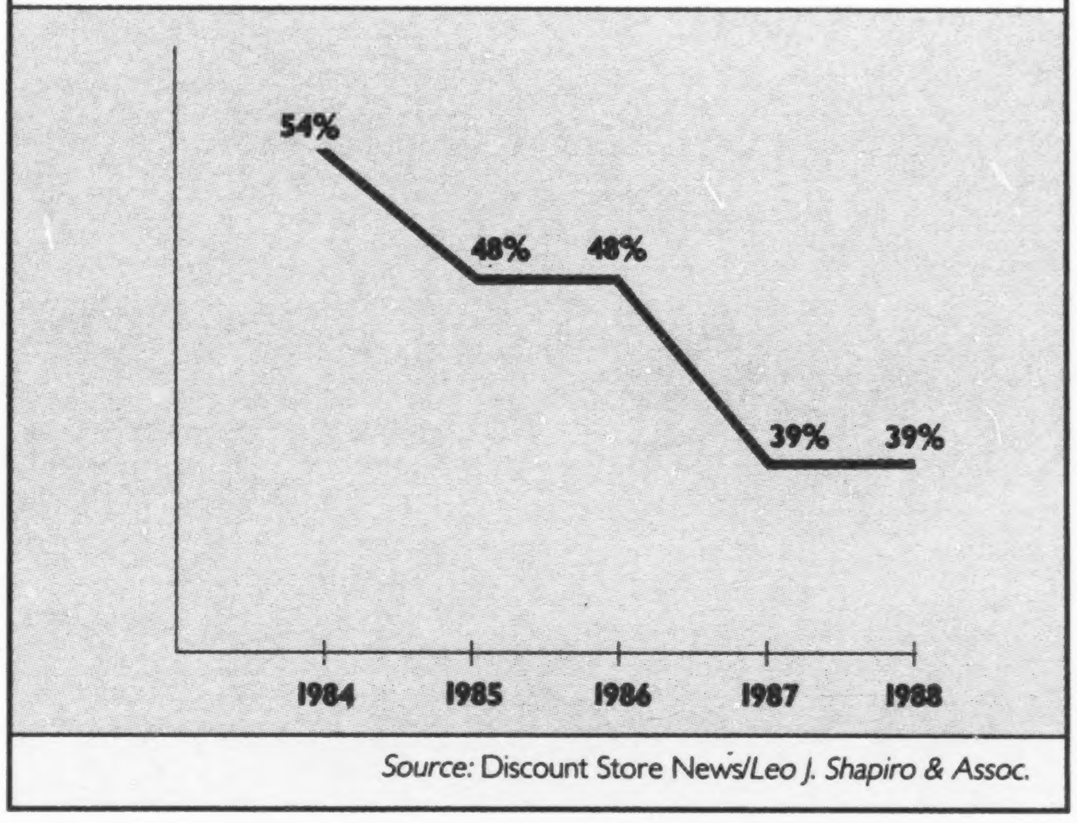
For instance, while the percentage of managers mentioning Kodak as among their best performing brands in the photo and camera department slipped slightly from 84 percent last year to 80 percent this year, its lead over second-ranked Polaroid increased by 9 percentage points. Polaroid, which maintained its second place ranking, was mentioned by 34 percent of managers compared to 47 percent the year before.

A little over three-quarters of managers reported some increase in brand names in at least one department. The leading departments in brand growth were housewares (23 percent reported an increase) and health and beauty aids (21 percent), with men's apparel (15 percent), ladies' apparel (13 percent) and sporting goods (10 percent) also experiencing brand growth. Less than 10 percent of managers reported an increase in the number of brand names carried in each of the other departments.

These results are consistent with 1987's tally, as housewares and H&BA led the way last year. However, two leaders from last year, cosmetics and household chemicals, both fell back in brand growth, and no department really made significant gains to offset the decline.

National Brand Name Growth at Discounters

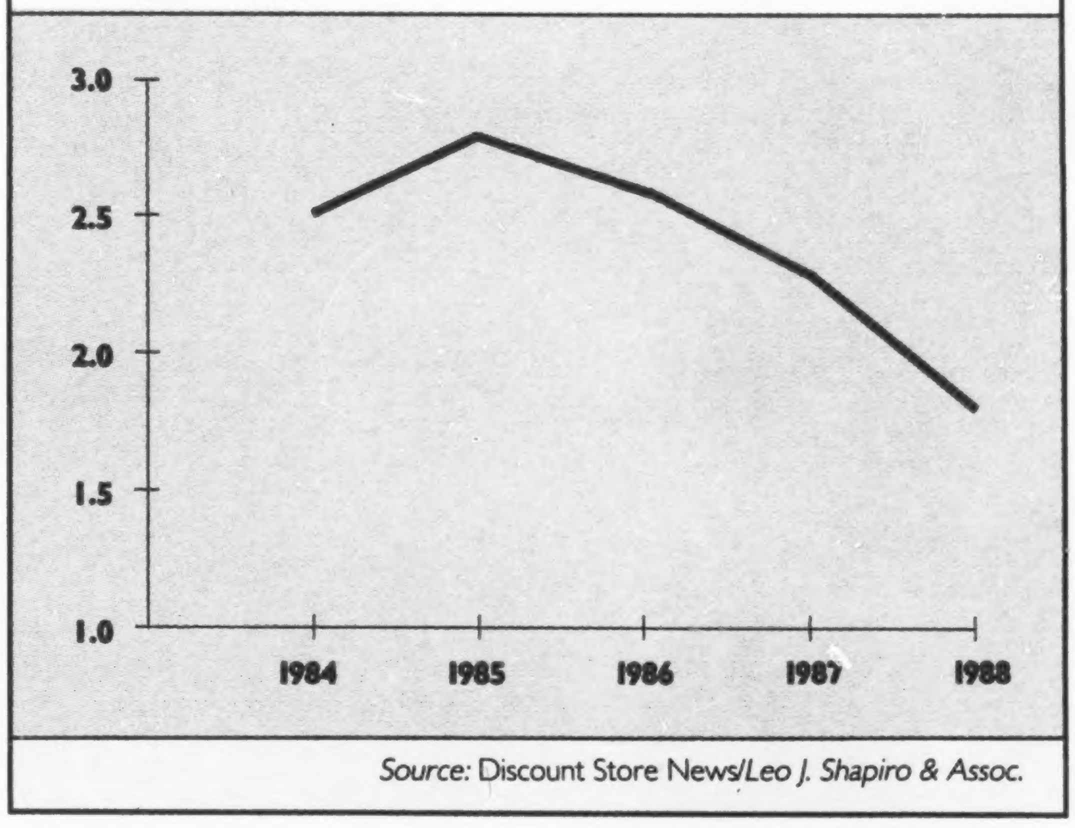
Percent of store managers reporting increase in number of name brands carried in their store:



Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Managers Grow More Selective In Naming Top Performers

Average number of brands mentioned per manager as top performers in each department:



Source: Discount Store News/*Leo J. Shapiro & Assoc.*

It is unlikely that discounters have become disenchanted with brand names. Along with a slowdown in brand mentions has come an increasing concern with product quality. It appears managers feel that if they can find a good, reliable product at a price point consistent with their operations, it will perform well.

According to the survey's findings, managers appear to be saying that they have enough brands now. Any new addition to their departments will most likely come at the expense of another name brand.

With the exception of apparel departments, discounters now have access to virtually any major national brand in most categories. And, with the growth of Gitano and widespread availability of staple brands like Lee, apparel isn't lagging very far behind other discount departments.

The increase in fashion names has been well documented, and discounters seem to be more satisfied with their product mix than in the past.

Additionally, many of the brands not available (or only recently showing up on discounter shelves) are attainable only at a price—lower margins. If discounters wish to compete for department store brands, for instance, they may actually have to pay more for them, and then sell them for less.

In the case of fashion items, that may mean virtually no profit. With shelf and floor space at more of a premium than ever, discounters are understandably cautious about adding low-profit goods, no matter how much traffic they would generate.

While housewares and H&BA were the most likely departments to experience brand name growth overall, there were significant differences in emphasis among the major chains surveyed.

Upscalers as a whole were much more concerned with upgrading their brand presence in consumer electronics (12 percent) than were conventional discounters (4 percent). The same held true in toys, automotives and H&BA, although with less contrast.

Upscale discount store managers, probably because they already had more name brands in the department, saw less growth in ladies' and children's apparel brands, but were just as likely as conventional discount store managers to report growth in men's apparel brand names.

This was particularly true at Target. Of Target managers reporting some brand growth, one-fifth singled out

(Continued on page 36)

Where Name Brands Are Growing

Percent of store managers reporting increase in number of name brands carried by department:

Department	1988	1987	1986	1985	1984
Housewares	23%	24%	20%	22%	22%
Health & Beauty Aids	21	21	17	14	22
Men's Apparel	15	11	14	16	21
Ladies' Apparel	13	10	16	18	22
Sporting Goods	10	11	9	5	4
Hardware	9	8	11	9	10
Household Chemicals	7	NA	5	3	NA
Cosmetics	7	10	6	9	3
Children's Apparel	6	3	3	5	5
Consumer Electronics	5	8	9	6	7
Food, Candy, Snacks	5	2	5	2	3
Automotives	4	6	3	3	4
Toys	2	4	4	2	1
Domestics	2	3	4	3	11
Stationery	2	NA	NA	NA	NA
Photo, Camera	1	1	2	3	2

NA—not available

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

WHAT DO YOU CALL SOMEONE WITH 351 SKU'S?

A Regal Sales Representative.

And you can see all 351 SKU's of cookware, electrics and microwave cookware by calling 414-626-2121. Or write Regal Ware, Inc., 1675 Reigle Drive, Kewaskum, WI 53040.

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National Brand Growth Continues at Even Pace

(Continued from page 35)

men's apparel as an area of growth.

Conventional discounters also had individual agendas. Nearly 40 percent of K mart managers reported brand growth in housewares, compared to 13 percent at Wal-Mart and 18 percent of Zayre managers. Significantly more K mart managers reported growth in sporting goods and cosmetics than did managers at the other chains.

Zayre's desperate (and ultimately ill-fated) attempt to upgrade its fashion image showed through clearly in the chain's responses. Nearly one-third of Zayre managers reporting some brand growth mentioned the men's apparel department as a growth area, compared to 15 percent of all managers. The same held true in consumer electronics, where 21 percent of Zayre managers—compared to only 4 percent of all other managers—reported brand name growth. Zayre brand growth rates were also above average in ladies' wear and domestics.

Wal-Mart managers tended to settle somewhere within striking distance of the average in most departments, showing significant variances only in household cleaners, candy and snacks, and H&BA, where they were more likely than average to report growth, and housewares and cosmetics, where they reported less-than-average increases in brand presence.

Once again, Kodak was the best-performing brand overall, with 80 percent of managers surveyed naming the Rochester, N.Y.-based giant as a best-performing brand in their photo and camera department. Maybelline, the

(Continued on page 55)

National Survey Reveals Store Managers' Top Performing Brands

Automotives ***129***
Pennzoil
Quaker State
Fram

Consumer Electronics ... ***121***
Emerson
General Electric
GoldStar

Cosmetics ***65***
Maybelline
Cover Girl
Revlon

Domestics ***113***
Cannon
J.P. Stevens
Pepperell

Food, Candy, Snacks ***141***
Hershey's
Snickers
M&M

Hardware ***139***
Stanley
Black & Decker
Lucite

Health & Beauty Aids ... ***131***
Crest
Colgate
Listerine

Household Chemicals ... ***115***
Tide
Windex
Clorox

Housewares ***118***
Rubbermaid
Corelle
Visions

Infants, Toddlers, Children's Apparel ***63***
Lee
Curity
Health-Tex
Liberty

Ladies' Apparel ***60***
Gitano
Lee
Jaclyn Smith

Men's Apparel ***59***
Lee
Wrangler
Fruit of the Loom

Personal Care ***123***
Conair
Clairol
Windmere

Photo, Camera ***117***
Kodak
Polaroid
Canon

Sporting Goods ***132***
Wilson
Coleman
Spalding

Stationery ***136***
Mead
Bic
Papermate

Toys ***135***
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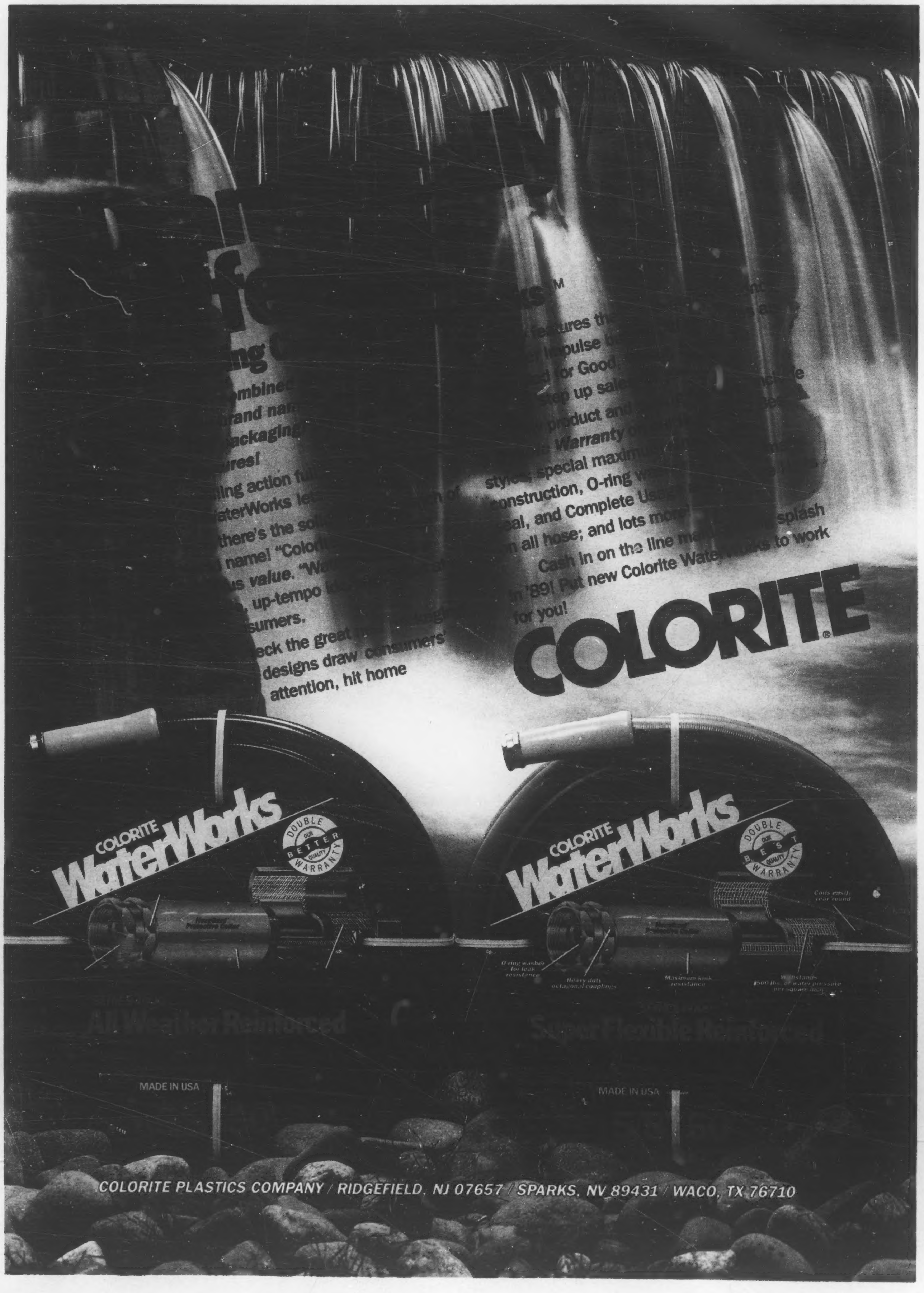
Mattel
Playskool

Store managers nationwide named their best performing brands in 17 merchandise categories, in a poll conducted for Discount Store News by Leo J. Shapiro & Associates.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Heavy duty octagonal couplings
Maximum kink resistance
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Best Performers Noted for Effective Advertising

Nationwide DSN Report

Discount store managers appear to be increasingly concerned with the quality of products they sell, according to responses to the Top Brands Survey, but the traditional tandem of advertising and price is still a potent attribute of best-performing brands.

Advertising was cited as the single most important element in the success of any given brand, according to the study, but brand recognition, product performance and, to a lesser degree, price, played key roles as well.

In an average department, one-third of managers naming a brand mentioned effective advertising when asked why that brand was successful.

Just under one-third (31 percent) stressed brand recognition, and 28 percent were concerned with actual product performance. Price, always a major consideration at discount stores, was mentioned a little under one-quarter of the time (23 percent).

Other considerations, such as a large product offering, effective promotions and product presentation, sales volume and product features, were noted far less often.

Of course, reasons for success cited by managers varied markedly from category to category. Top brands in cosmetics, for instance, performed well because of advertising (45 percent) and product presentation (15 percent), with product performance less important than in other categories.

In an average department, 28 percent of managers cited performance as a key to success; only 20 percent mentioned performance in relation to top cosmetics brands. Product promotions also played a relatively insignificant role in cosmetics brand performance.

Advertising was also considered particularly important in the automotives (44 percent of managers), household cleaners (43 percent) and personal care appliances (also 43 percent) categories, and relatively unimportant in housewares, men's apparel and children's apparel areas.

Brand recognition played its largest role in the photo department (44 percent of managers), along with children's and men's apparel (37 percent and 39 percent, respectively). The recognition factor was considered less important to the success of personal care appliance (24 percent) and CE (26 percent) brands.

Product performance had considerable impact in the hardware (40 percent) and sporting goods (35 percent)

(Continued on page 55)

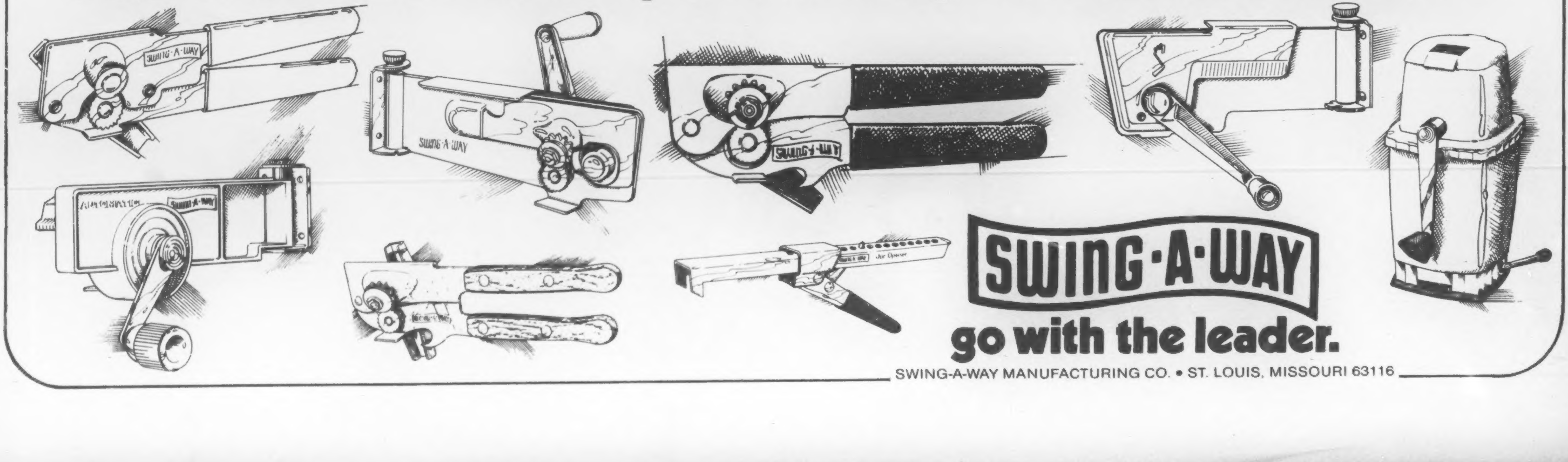
Attributes of Best Performing Brands

	Average All Departments	Household Cleaners & Chemicals	Housewares	Hardware	Domestics	Automotives	Stationery	Sporting Goods	Photo & Camera	Toys	Consumer Electronics	Food, Candy & Snacks	Men's Apparel	Ladies' Apparel	Children's Apparel	Personal Care Appliances	Health & Beauty Aids	Cosmetics
Advertising (net)	33%	43%	23%	28%	25%	44%	31%	30%	33%	32%	39%	30%	23%	36%	23%	43%	40%	45%
They advertise	27	36	17	22	17	36	23	24	27	27	32	23	16	29	17	35	35	37
We advertise	7	8	6	7	8	8	8	6	6	6	7	8	8	8	10	8	6	8
Product Performance (net)	28	33	31	40	24	27	25	35	28	26	30	26	30	28	25	21	23	20
Quality product	21	20	25	36	19	22	19	27	24	22	28	14	22	18	17	18	10	14
People like it/no complaints	3	1	3	2	4	3	2	1	2	3	—	11	4	4	2	1	8	2
Known for quality	2	2	3	1	1	1	2	2	2	1	3	1	2	1	4	1	1	2
Brand recognition (net)	31	28	36	33	30	27	27	27	44	32	26	27	39	29	37	24	29	28
Brand recognition	14	13	14	14	16	12	12	13	18	14	10	14	21	10	20	12	16	13
National brand/brand name	12	9	15	17	13	10	10	10	19	12	8	9	11	17	14	10	9	7
Prices, low, good	23	21	22	21	33	26	18	15	16	13	34	20	31	21	28	26	30	23
Large line/variety (net)	9	2	19	9	17	3	10	6	3	13	4	10	8	19	8	5	2	10
Promotions (net)	7	5	8	6	10	6	6	7	4	7	4	10	7	8	10	7	8	2
In-store promotion	5	4	7	5	8	3	4	2	4	4	3	7	7	6	8	4	6	2
Sales/specials	2	1	1	1	2	3	2	5	—	3	1	3	—	2	1	1	2	1
Product presentation (net)	7	4	7	5	6	6	5	6	5	6	4	9	13	8	10	6	5	15
Display	5	2	4	5	4	5	3	6	4	6	4	7	7	4	6	2	5	5
Location in store	2	1	1	—	—	1	2	1	2	—	—	3	3	2	—	2	2	9
Sales volume (net)	5	4	3	3	8	4	8	10	6	6	5	7	2	4	5	3	4	3
Only brand carried	3	3	1	5	3	5	6	5	3	3	1	3	2	3	2	6	—	2
Product/manufacturer features (net)	2	2	2	3	—	3	2	2	2	—	4	1	1	2	—	2	1	1
Warranty	1	1	2	2	—	—	—	—	1	—	3	—	—	—	—	1	—	—
Made in USA	1	1	—	*	—	1	1	1	—	—	2	—	1	1	—	1	—	1

**Less than 0.5%*

Numbers exceed 100% due to multiple responses.

Source: Discount Store News/*Leo J. Shapiro & Assoc.*



One of the best-known, best-selling brands in housewares.

SWING-A-WAY

go with the leader.

SWING-A-WAY MANUFACTURING CO. • ST. LOUIS, MISSOURI 63116

National Brand Growth Continues at Even Pace

(Continued from page 36)

cosmetics department leader, was runner-up, with 70 percent of all managers mentioning the brand as a best performer in cosmetics.

Other top-performing brands in various departments and the percentage of managers who mentioned them were hardware brands Stanley (56 percent) and Black & Decker (54 percent), toy giant Fisher-Price (54 percent) and perennial domestics leader Cannon (53 percent).

Laundry detergent Tide was most often mentioned as a best-performing brand in the household cleaners category with 48 percent of managers citing the brand, while Crest toothpaste in H&BA and personal care appliance supplier Conair also received responses from 48 percent of managers. Stationery brand Mead (41 percent) was the only other top brand to receive mentions by as much as 40 percent of managers, though a number of M&M/Mars brands, taken together, totaled over 40 percent in the food, candy and snacks category. Hershey's, however, was the single most-often mentioned brand in food, candy and snacks, cited by 22 percent of the managers.

Rubbermaid (34 percent) lead the housewares department by a comfortable margin, although all Corning brand names combined would have placed that supplier at the top of the list. Emerson, which finished on top of the CE category by a narrow margin, was mentioned by 30 percent of store managers.

Gitano (29 percent in ladies' apparel) and sporting goods manufacturers Wilson and Coleman (28 percent each) just missed the 30 percent mark. Lee (24 percent in men's and 12 percent in children's) was the only brand to finish first in two categories.

Perhaps reflecting the uncertainty of the economic situation of the country as a whole in an election year, managers were slightly less optimistic about sales growth potential than was the case in 1987. Last year, about 90 percent of managers forecast growth for the upcoming year. (On the whole, they were right.)

This year, the percentage dropped to 83 percent. About 11 percent, a significant minority, predicted lower sales for 1989.

This year's Top Brands store manager survey was conducted in July by Leo J. Shapiro & Associates, and is nationally projectable. In all, 304 managers from several national and regional discount store chains were interviewed. In addition to K mart, Wal-Mart, Zayre and Target, store managers from Gold Circle, Bradlees, Caldor, Venture and Fred Meyer were interviewed.

Top Brands Noted For Advertising

(Continued from page 43)

departments, but managers felt that performance was relatively unimportant for H&BA and personal care appliance products.

Consumer electronics (34 percent) and domestics (33 percent) were considered to be the most price-sensitive departments, while price played a much smaller role in toys (13 percent citing price as a factor), sporting goods (15 percent) and photo (16 percent).

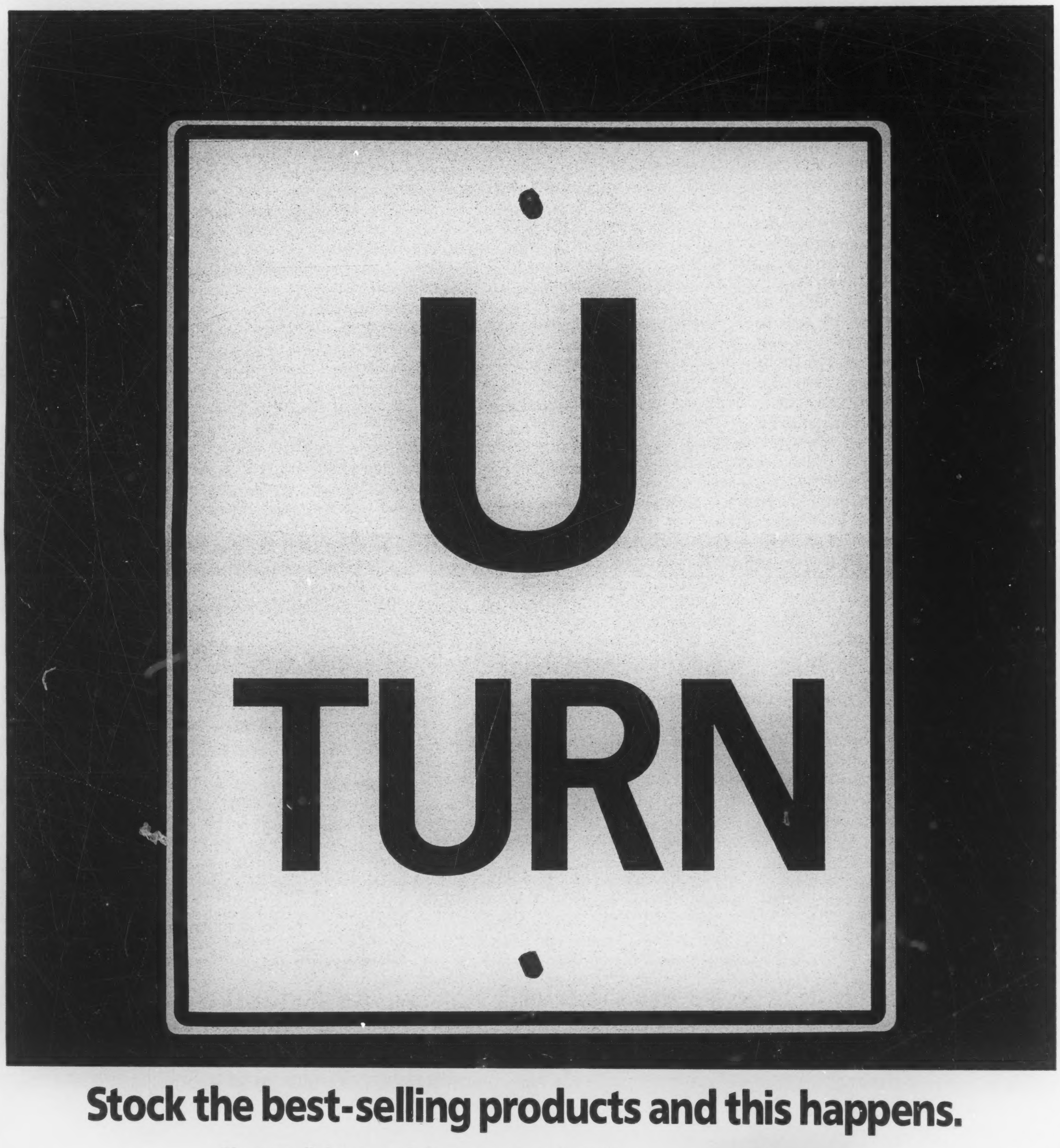
Large, complete offerings of product were key in housewares, ladies' apparel and domestics. Apparently, competing with the large toy store specialists resulted in a significant percentage of store managers stating that a large selection is an important attribute of a successful toy brand.

On the other hand, complete offerings mattered much less in H&BA, household cleaners, automotives and photo.

Promotions played a measurably above-average role in only three departments: domestics, children's apparel and food/candy/snacks (10 percent each).

Product presentation was judged important in cosmetics, where supplied fixtures and displays are common, as well as men's apparel and children's apparel, while product features counted noticeably only in the CE department.

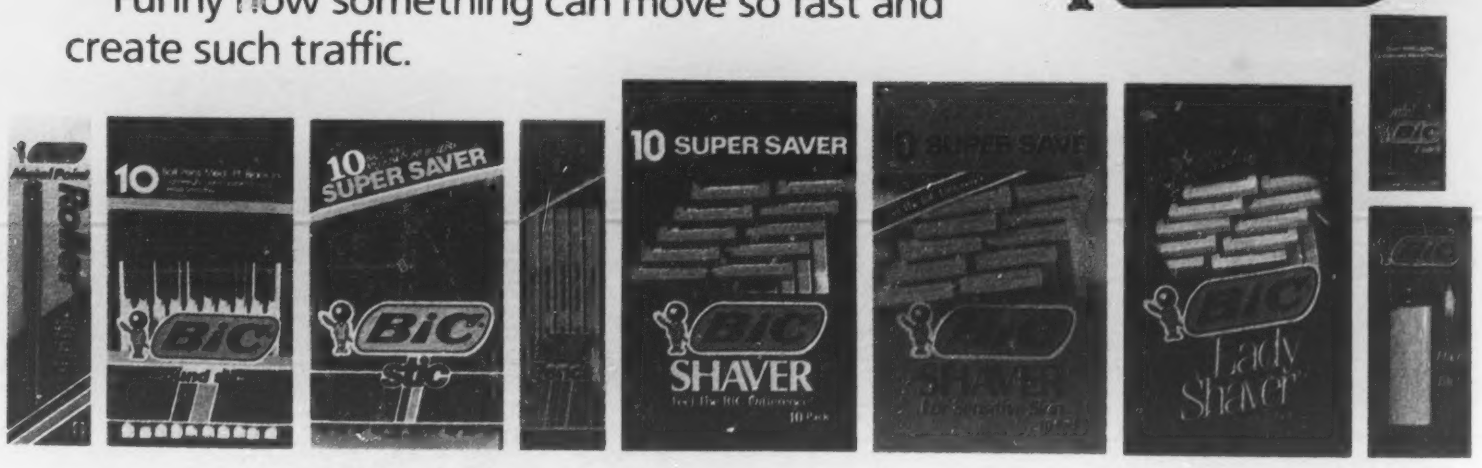
Last year, brand recognition was considered more important than advertising in 11 of 17 product categories; this year, advertising was most significant in 11 departments and tied with brand recognition in another.



Stock the best-selling products and this happens.

Bic pens, lighters and shavers turn at breathtaking speeds. Now, that's a sign of high-quality.

Funny how something can move so fast and create such traffic.



Top Brands Apparel

PART I: STORE MANAGER SURVEY

Jeans Dynamic Duo Back on Top in Men's

RUSTLER
DURABLE
TWILL JEANS
$12 97

Jeans brands charged to the top as names most often cited as best performers in men's. (DSN photo)

	Top Brands Vary by Type of Outlet					
	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	**1988**	**1987**	**1988**	**1987**	**1988**	**1987**
Lee	24%	31%	22%	20%	37%	59%
Wrangler	23	35	25	33	13	38
Fruit of the Loom	22	39	22	38	23	40
Hanes	17	31	15	24	23	48
Dickies	11	13	13	18	2	1
Levi's	10	13	8	10	19	21
McGregor	8	16	8	11	8	28
Rustler	6	8	7	10	2	3
Manhattan	5	4	5	1	7	12
Ocean Pacific	3	1	4	—	—	3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Nationwide DSN Report

After a brief one-year reign as the most often mentioned best performing brand among discount store managers last year, Fruit of the Loom underwear dropped back to No. 3, with the familiar two jeans brands, Lee and Wrangler, moving back up to Nos. 1 and 2, respectively.

Again, as in women's apparel, total mentions of brands throughout the men's category were down compared to last year. For example, while Lee improved to No. 1 from No. 3 last year, the percentage of managers citing Lee as among their best performing brands dropped from 31 percent to 24 percent.

As in ladies' apparel, two jeans brands are on top of the heap. However, unlike Gitano and Lee in the female category, Lee and Wrangler in men's are not as evenly distributed between upscale and conventional discounters.

Lee, for example, was mentioned by 37 percent of upscale discounters and only 22 percent of others.

Wrangler, not surprisingly, was a mirror image of Lee, deriving its strength mainly from conventionals—25 percent—compared to upscalers, with only 13 percent. (It should be noted that since Lee and Wrangler are now owned by the same company, VF, a strategy of differentiation could be taking hold at retail.)

While it dropped to third place, Fruit of the Loom displayed the best balance compared to Lee and Wrangler. FOL got 22 percent of mentions among conventional store managers and 23 percent among upscalers.

Like Fruit of the Loom, another underwear brand—Hanes fell a notch this year to No. 4. Hanes, however, had more upscale store managers—23 percent mentions—in its camp than conventional store managers, with just 15 percent of them mentioning the brand.

Other movements in the rankings from last year to this year are: Dickies, the basic workwear/jeans brand, moving up to No. 5 from No. 7; McGregor, the men's and boys' apparel line, dropping to No. 7 from No. 5, and Manhattan, a recent convert to the discount industry, inching up to No. 9 from the 10th slot.

Falling off the list this year was Reed st. James, the men's wear apparel and accessories line put together by major manufacturers and earmarked exclusively for the discount industry. Reed st. James, which was No. 9 last year, has been having its problems of late. It seems that many discounters either want a longtime major national brand, or an exclusive brand/label of their own.

The one addition to the top 10 list is high-fashion Ocean Pacific, in the No. 10 slot. Surprisingly, the fashionable sportswear brand got all its mentions—4 percent—from conventional discounters, and none from upscale stores.

Not surprisingly, Dickies and Levi's flip-flopped on their appeal between discounters at conventional and upscale stores, with Dickies most successful among conventional discounters—13 percent, compared to 2 percent at upscalers—and Levi's most often mentioned by the upscalers—19 percent, compared to 8 percent at the conventionals.

Even though it fell from the top five for the first time in several years, McGregor was named by a healthy 8 percent of all store managers.

Like Gitano in women's apparel, Lee was in great favor among Zayre store managers. Fifty-two percent of Zayre managers named Lee among their best performing brands, the highest rate of support for any one brand at one single chain.

The next highest mention across-the-board was Wrangler's 43 percent at Wal-Mart. Others with exceptional support at a chain included Dickies (42 percent of Zayre managers), Lee (38 percent of Target managers) and Fruit of the Loom (36 percent of Zayre managers).

Zayre, in ladies' and men's apparel, was far and away the most brand conscious of the four singled-out discounters.

Asked what qualities led to their top brand decisions, the highest percentage of respondents cited brand recognition (39 percent), followed by price (31 percent) and product performance (30 percent). Advertising, promotion and sales volume were mentioned by far fewer managers.

Upscalers were, predictably, much more concerned with brand recognition (57 percent) than were conventional discounters (35 percent) and, conversely, less concerned with product performance (17 percent vs. 33 percent). Traditional discounters were more concerned with price (35 percent) than were upscalers (15 percent).

K mart managers were far more concerned with product quality in the men's apparel department (42 percent) than were most other discounters, and in sharp contrast to most other categories, in price as well (47 percent).

Only 28 percent of Wal-Mart managers, generally the most price-conscious of the respondents, said that price was an important consideration, preferring product presentation (28 percent against an average of 13 percent) and advertising (28 percent against an average of 23 percent).

Zayre and Target, generally considered opposite poles of merchandising strategy, agreed that advertising and brand recognition were important elements in judging a product's importance, though Zayre managers felt strongly (38 percent) that product performance was the most important facet (compared to only 14 percent of Target managers).

	How Industry's Top 5 Fare at Chains			
Brand	**K mart**	**Wal-Mart**	**Zayre**	**Target**
Lee	11%	3%	52%	38%
Wrangler	22	43	24	30
Fruit of the Loom	16	25	36	6
Hanes	13	18	33	6
Dickies	3	10	42	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

	Top Brands' Performance by Region			
Brand	**Northeast**	**South**	**North Central**	**West**
Lee	31%	18%	35%	15%
Wrangler	13	26	22	26
Fruit of the Loom	28	26	14	24
Hanes	23	17	12	18
Dickies	9	14	9	9
Levi's	—	8	11	17
McGregor	16	9	7	2
Rustler	5	8	6	2
Manhattan	19	2	3	2
Ocean Pacific	5	2	2	7

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Discount Momentum Propels Gitano Past Lee

Wal-Mart's new private label program, Bobbie Brooks, made its first showing on the Top Brands list. (DSN photo)

Nationwide DSN Report

In the battle of branded jeans, Gitano edged out Lee for the No. 1 spot on the Top Brands list, according to a national survey of discount store managers.

Gitano had been gaining momentum in the marketplace for the last couple of years, selling and appealing directly to discounters while maintaining a high fashion image through creative styling and aggressive advertising.

The one-two punch of Gitano and Lee remains the powerhouse jeans brand combination in this market. Last year, Lee edged out Gitano by 1 percentage point.

Also, Gitano and Lee continue to have the best across-the-board appeal, with high numbers among both conventional and upscale discounters. Most other brands on the list got a disproportionate number of mentions from only one of the two segments.

Gitano, which in the past had trouble holding its own among upscale discounters, is now running neck and neck with Lee, with both brands being mentioned by nearly 30 percent of those managers. Last year, by contrast, Lee had 65 percent of upscaler mentions and Gitano received 40 percent of manager mentions among upscalers.

Total Mentions Drop

Overall, compared to last year, total branded mentions dropped slightly. In other words, while Lee suffered a 9 percentage point drop from last year, it still finished second, ahead of third place competitor, Jaclyn Smith, by a wide margin. Gitano won this year with 2 percent less fewer store managers mentioning it as a best performer, than Lee won with last year, suggesting that store managers are viewing brands as a bit less important than last year.

Credence is lent to such a theory when it's noted that Jaclyn Smith, K mart's private label signature line, jumped to third place on the list from fifth place last year. On top of that, Bobbie Brooks, Wal-Mart's new exclusive women's wear line, marks its first year on the list (at No. 5) with more manager mentions than established brands like Wrangler, Playtex, Levi's and Fruit of the Loom. This, of course, is directly related to the influence of the Wal-Mart managers polled.

However, it should be noted that whereas last year nearly six out of 10 K mart managers surveyed listed the company's house brand, Jaclyn Smith collection, as its best performing brand, this year only four out of 10 did so.

Dropping off the top 10 list this year are L'eggs (No. 9 last year) and Hunter's Glen (another K mart label), which was No. 10 last year.

New to the top 10 this year are Bobbie Brooks and Cape Cod, a dressy line of career coordinates.

Of the top 10, seven of the brands—Gitano, Lee, Chic, Playtex, Levi's, Cape Cod and Fruit of the Loom—got a higher percentage of nods from the upscale store managers than from managers of conventional stores. Not counting brands that are exclusive to particular chains (namely, Jaclyn Smith and Bobbie Brooks), just one brand—Wrangler—received more manager mentions from conventional discounters than from upscalers.

Interestingly, Gitano was mentioned by a higher percentage of Zayre store managers than any other brand at any other discounter, including Wal-Mart managers citing Bobbie Brooks and K mart managers mentioning Jaclyn Smith. The 67 percent figure is a testament to the importance of the fashion-image Gitano brand at Zayre, which was trying (at least until its acquisition last month by Ames) to attract a broader, more upscale customer.

Lee maintained its lead over Gitano among the upscale Target store managers, 32 percent to 21 percent.

When asked to explain their choices, managers were very vocal in support of several of the top brands. Of Gitano, one manager said, "The product sells itself and is of very good quality."

Referring to Levi's, another store manager said, "They supply basic jeans that everybody likes." Another Levi's supporter said, "You can wear them all year after year and still be in style."

Lee garnered praise for its quality and effective national advertising, while Chic drew compliments for the availability of its wide range of sizes.

Regionally, Gitano was strongest in the Northeast (47 percent of managers) and weakest in the West (22 percent), while Lee fared best in the North Central (29 percent), with the South and West bringing up the rear (17 percent each).

Even though K mart is spread out relatively uniformly across the country, the Jaclyn Smith brand was mentioned most often by store managers in the West (24 percent), with more mentions on a percentage basis than the other three regions of the country combined.

Given its name, the Cape Cod brand predictably did best in the Northeast (13 percent), the third most popular brand among store managers in that region. The brand was barely mentioned by managers in the other three regions.

Levi's, which still doesn't sell directly to discounters (the company's Brittania label is sold to discounters, but it didn't have enough mentions to make the top 20), did best in the West, with 11 percent of managers.

Overall, advertising seemed to be the most important reason for a brand's success, the managers said. Over 36 percent of them said that advertising (by vendor or by store) was significant in top performing brands' ratings.

Brand recognition (mentioned by 29 percent) and product performance (28 percent) were other leading indicators, while price (except at Wal-Mart) was judged to be of secondary importance.

There were significant differences between upscale and conventional discounters. Upscalers, for instance, valued advertising far less than did other discounters (22 percent vs. 36 percent), but tended to be a bit more brand conscious (33 percent to 28 percent). Upscalers were also less concerned (27 percent vs. 28 percent) with product performance, although Target managers (47 percent) were a distinct exception to that rule.

Such responses aren't surprising, as it suggests that upscale store managers, while believing product quality is important, are far more concerned about a brand's image than are conventional discount store managers.

Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1988	1987	1988	1987	1988	1987
Gitano	29%	30%	29%	25%	30%	40%
Lee	22	31	20	17	31	65
Jaclyn Smith	11	16	13	22	—	—
Chic	9	16	7	14	20	22
Bobbie Brooks	8	—	9	—	—	—
Wrangler	7	21	7	19	4	28
Playtex	4	9	3	8	12	14
Levi's	4	10	3	8	8	17
Cape Cod	3	1	3	—	5	3
Fruit of the Loom	2	8	1	5	6	14

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Gitano	23%	38%	67%	21%
Lee	9	3	27	32
Jaclyn Smith	41	—	—	—
Chic	2	—	3	27
Bobbie Brooks	—	65	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Gitano	47%	31%	23%	22%
Lee	26	17	29	17
Jaclyn Smith	3	8	11	24
Chic	3	9	14	9
Bobbie Brooks	—	18	2	2
Wrangler	11	3	7	11
Playtex	5	4	3	7
Levi's	3	2	3	11
Cape Cod	13	1	3	—
Fruit of the Loom	3	1	1	4

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Upscaling Upsets Performance in 'Small Duds'

Nationwide DSN Report

In taking the top spot of all the brands in infants', toddlers' and children's apparel, Lee nearly completed a sweep of major apparel categories, according to a survey of discount store managers conducted for *DSN* by Chicago-based market researchers Leo J. Shapiro & Associates.

This category also exhibited far more volatility than was the case in most areas, with five brands dropping off the top 10 from last year, and five others moving onto the list.

Lee narrowly missed the "triple crown" by coming in at No. 2 behind Gitano in ladies' apparel, ironically the only category it won last year.

Shooting to the top spot from No. 4 last year, Lee received more than double the manager mentions from upscale discounters—21 percent—than from conventional discount store managers.

7.99
Lee
Lee
8.99
Le

More discount store managers mentioned Lee as a top performer than any other brand in children's apparel. (DSN photo)

Top Brands Vary by Type of Outlet

Brand	All Discounters 1988	All Discounters 1987	Conventional Discounters 1988	Conventional Discounters 1987	Upscale Discounters 1988	Upscale Discounters 1987
Lee	12%	14%	10%	9%	21%	25%
Curity	10	14	7	8	23	32
Health-Tex	8	5	7	5	14	3
Liberty	8	—	10	—	—	—
Garanimals	6	11	7	12	2	9
Levi's	6	—	6	—	5	—
Spencer's	5	6	6	7	—	4
Fruit of the Loom	5	16	4	14	7	20
Oshkosh	4	4	5	5	—	1
Garan	4	4	3	2	4	7

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Key Fashion Brands

Once again, following the pattern established in ladies' and men's apparel, total brand mentions were down slightly. Yet, on the other hand, it's becoming quite clear that store managers across the board are becoming more brand/image conscious in this category. That is, while brands as a whole might be on the decline, key fashion brands seem to be more indispensable than ever.

New to the list this year are three fashion- and/or image-oriented upscale brands: Health-Tex, exploding onto the top 10 list at No. 3; Levi's, entering at No. 6, and Oshkosh, cracking the rankings at No. 9. Also new to the ranking was Liberty, a complete line of children's wear to which Wal-Mart has the exclusive rights, debuting as the fourth-best performing brand; and Garan, which just edged onto the list in the 10th position.

Shift Away from Infants

Dropping off the list were Wrangler (third last year), Pampers (from fifth), Huggies (seventh), Carter (ninth) and Hanes (from No. 10). Obviously, it was a shift from infants' wear—mainly diapers, etc.—back to branded product for toddlers and children this year—and department store-type brands, at that.

Of the brands that remained on the list from last year, Curity held its No. 2 spot, Garanimals climbed to No. 5 from its sixth slot last year, Spencer upped its ranking to No. 7 from 8th place last year, and Fruit of the Loom tumbled from its lofty No. 1 position last year to No. 8 this year.

Curity, even more than Lee, was mentioned more often among upscale store managers—23 percent—than by conventional store managers (7 percent). Garanimals and Spencer's, perennial favorites with the conventionals, held true to form again this year.

Of the new upscale trio, Health-Tex was the only one to get more manager mentions from upscalers (14 percent) than from conventionals (7 percent). Levi's was mentioned by 6 percent of the conventional discount store managers and 5 percent of the upscale discount store managers, while Oshkosh owes its existence on the list entirely to to the conventionals (mentions from 5 percent).

On a chain-by-chain basis, Zayre managers showed strong preferences for Lee, Spencer's, Fruit of the Loom and Wrangler, while Wal-Mart managers favored Liberty (an exclusive brand) and Garanimals. There seemed to be very little consensus among K mart managers, who showed mild enthusiasm for only one brand, Garanimals. Target managers gave high ratings to only one brand, Curity, with moderate support for Garan, Wrangler, Luvs, Gitano and Dr. Denton.

Regionally, Lee and Curity their highest percentages of manager mentions in the Northeast, and were less often mentioned by store managers in the West. No. 3 Health-Tex was very strong in the West and North Central regions, and virtually nonexistent elsewhere.

Levi's and Fruit of the Loom also had large differentials, doing far better in the West than they did elsewhere. Garanimals and Oshkosh received their highest number of manager mentions in the North Central region.

Both Lee and Curity were favorites, relatively speaking, of managers of larger and medium-sized stores, as was Fruit of the Loom, while managers of smaller stores tended to favor Liberty, Levi's and Health-Tex.

Managers felt that brand recognition was the single most important component of a brand's success in children's apparel. Overall, 37 percent cited brand recognition as a key, compared to 28 percent identifying low or "good" prices, 26 percent naming advertising and 25 percent naming product performance as key attributes.

Target managers were overwhelmingly concerned with brand recognition and advertising (50 percent each), and to a lesser extent with price (40 percent). Zayre managers were most impressed with product performance, with half of those surveyed saying that performance was important to them.

Price played a major role among Wal-Mart managers, while K mart managers were most interested in advertising and product performance (33 percent each) and relatively unimpressed with brand recognition (17 percent).

Overall, managers were less concerned with advertising in children's apparel than they were in other departments, but far more conscious of price and brand recognition than was the case in most departments.

Specific brand comments by managers varied widely. For instance, Garanimals products were cited for their "colors and style" and their "highly identifiable" brand recognition, while Health-Tex tended to gain support for its "quality" and price. Managers liked just about everything about Lee, noting that it was "a famous name brand," had heavy advertising, and has "continuous quality."

Wal-Mart managers reported that Liberty, which they alone among discounters sell, is "a pretty close copy to other brands" and was a "comparable value compared to Oshkosh."

Fruit of the Loom was popular because of its advertising and because of its brand recognition factor, while Curity was cited for its prices.

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Lee	—	3%	24%	9%
Curity	5%	3	9	21
Health-Tex	5	—	—	6
Liberty	—	63	—	—
Garanimals	9	15	3	6

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Lee	23%	13%	12%	—
Curity	12	13	8	4%
Health-Tex	5	—	16	15
Liberty	3	16	5	—
Garanimals	4	6	12	—
Levi's	3	5	3	13
Spencer's	4	5	6	4
Fruit of the Loom	11	3	2	9
Oshkosh	5	1	10	—
Garan	6	3	4	2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Advertising Named as Key to Brand Success

Nationwide DSN Report

The top four cosmetic brands maintained their ratings this year among discount store managers in *DSN*'s annual Top Brands Survey. Manufacturer advertising was the attribute cited most often by managers as the reason for mentioning a brand as a top performer in the cosmetics department.

Discounters asked to name their best selling cosmetic brands cited Maybelline, Cover Girl, Revlon and Max Factor as their top choices for the fifth year in a row.

However, reflecting the overall survey trend, all four brands received slightly fewer mentions from store managers than they did last year. Maybelline, No. 1 with 70 percent of all managers mentioning the brand, fell 7 percentage points; No. 2 Cover Girl, mentioned by 44 percent of all managers this year, dropped 4 points; No. 3 Revlon (31 percent this year) and No. 4 Max Factor (mentioned by 12 percent) each lost 11 percentage points.

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Maybelline	84%	75%	73%	59%
Cover Girl	42	45	61	59
Revlon	14	33	33	44
Max Factor	9	3	6	12
Noxell	27	3	—	6

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

The next three brands—Noxell, L'Oreal and Clairol—also held their past positions and were relatively steady with 9 percent, 7 percent and 4 percent, respectively, of the discounters citing the three as among their top performing brands. The remainder of the top 10 turned over.

In the current survey, Aziza moved up to the No. 8 slot from 9th last year and Almay held onto a piece of its 10th place finish, with new entries Sally Hansen (No. 9) and Hazel Bishop (tied for 10th) rounding out the top 10. Cutex, No. 8 last year, fell off the top 10 list.

Regionally, Maybelline was an easy favorite throughout the country, but Cover Girl, which was very popular in the South, and Revlon and Max Factor, showing significant strength in the Northeast and West, were less consistent.

Individual rankings among the nation's major discounters, however, showed some brands are thought of more highly at some chains than at others. Although Maybelline was the overall favorite, managers at conventional discounters like K mart, Wal-Mart and Zayre mentioned the brand much more often than did upscalers like Target.

Reflecting their different approaches to merchandising, Target and K mart were at opposite ends in their view of Maybelline. While K mart managers mentioned the brand most often as among its top performing brands in the department—and gave it the highest rating of all the individual chains surveyed with 84 percent of manager mentions—only 59 percent of Target managers mentioned Maybelline, tied for the No. 1 slot at the chain with Cover Girl. Only 57 percent of managers of upscaler discount stores, excluding Target, mentioned Maybelline.

Among the leading chains, Cover Girl was consistently No. 2 (except where it tied for first at Target), and the brand got its best score from Zayre (61 percent) and its lowest from K mart (42 percent).

While Wal-Mart, Zayre and Target all ranked Revlon third, K mart actually had the brand fourth, behind Noxell. Revlon did best at upscalers other than Target, with a 90 percent mention rate.

After the top three, responses from individual discounters were somewhat disparate. K mart placed Revlon and Max Factor in the No. 4 and No. 5 slots; Wal-Mart picked L'Oreal and Aziza; Zayre chose Hazel Bishop and L'Oreal, and Target named L'Oreal and Max Factor.

Overall, managers said that advertising was a key to their choices in cosmetics (45 percent felt that was important, compared to only 33 percent average for all departments in the store), but brand recognition (28 percent of managers) and product presentation (15 percent against an average of 7 percent for the entire store), and to a lesser extent, low prices (23 percent), were also judged as key.

Other factors, such as a large and varied line, promotions and sales volume, were not valued as highly.

While advertising was the No. 1 reason for a brand's success at both conventional discounters and upscalers, the latter category rated advertising much higher, 57 percent to 43 percent. Both discount segments, at roughly 37 percent, felt a manufacturer's advertising was important, but upscalers stressed their own advertising as well.

Brand recognition, with an overall 28 percent of managers citing that attribute, also was rated higher at image-conscious upscale chains, 41 percent to 25 percent.

Maybelline
ybelline
er Girl

In cosmetics, Maybelline was mentioned the most often by all store managers as a top performer. However, more conventional discounters gave it a top rating than did upscale chains. (DSN photo)

Wal-Mart managers felt that price was the most important consideration (39 percent), followed by advertising (35 percent), brand recognition (30 percent) and product presentation (19 percent). Product performance (13 percent) was not so important to Wal-Mart managers.

Zayre managers were very high on advertising (44 percent) and product performance (25 percent), but less concerned with brand recognition (19 percent) and product presentation (13 percent).

K mart managers didn't seem to feel strongly that any one quality was important in their choice of a top brand in cosmetics. Their main consideration (mentioned by just under 40 percent) seemed to be price, and they were less likely than average to cite advertising and product performance as important qualities.

Target managers preferred advertising (mentioned by 40 percent), brand recognition (33 percent) and presentation (20 percent), while valuing price very little (7 percent).

Not surprisingly, conventional discounters found low prices a more significant factor in a cosmetic brand's success than did upscalers, 26 percent to 6 percent, but that they also stressed product performance more (22 percent compared to 10 percent by upscale discount store managers) is a bit surprising.

However, upscalers were more sold on the significance of a brand's large and varied line (13 percent to 9 percent), product presentation (19 percent to 14 percent) and brand recognition (41 percent to 25 percent).

Individually, the top three brands received separate gauges to determine their overriding success. For Maybelline, the key was advertising—especially by the manufacturer—followed by product performance, brand recognition and low prices.

Cover Girl's brand success was first attributable to product performance, then low prices, followed by brand recognition and advertising.

For Revlon, the key was overwhelmingly advertising, then product performance, brand recognition and low prices.

Top Brands Vary by Type of Outlet

	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	1988	1987	1988	1987	1988	1987
Maybelline	70%	77%	73%	77%	57%	77%
Cover Girl	44	48	44	49	46	45
Revlon	31	42	22	29	76	76
Max Factor	12	23	9	18	23	36
Noxell	9	10	10	12	2	3
L'Oreal	7	7	6	6	14	10
Clairol	4	7	4	8	4	4
Aziza	4	4	2	2	12	8
Sally Hansen	3	2	3	2	1	—
Hazel Bishop	2	2	3	3	—	—
Almay	2	3	1	—	8	10

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Maybelline	57%	72%	72%	70%
Cover Girl	37	50	42	44
Revlon	54	21	25	45
Max Factor	14	9	11	15
Noxell	—	11	10	9
L'Oreal	7	8	10	2
Clairol	5	2	8	2
Aziza	5	2	4	6
Sally Hansen	—	3	3	4
Hazel Bishop	1	5	1	—
Almay	4	2	2	2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

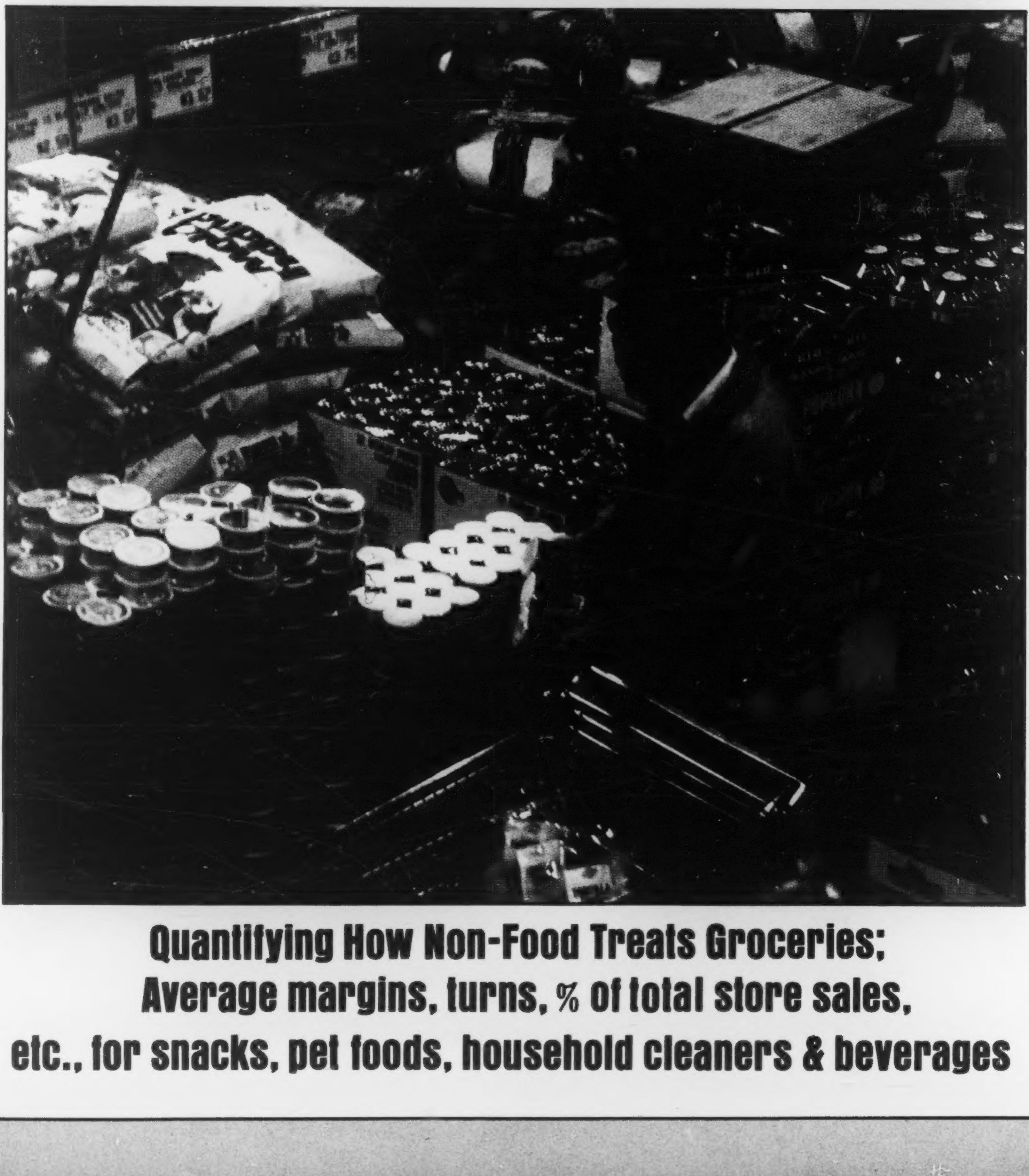
FM

FOOD MERCHANDISING
FOR NON-FOOD RETAILERS

Fall 1988

Profile; Pet Care Sales-Page 37

First Annual Non-Food Retail Grocery:

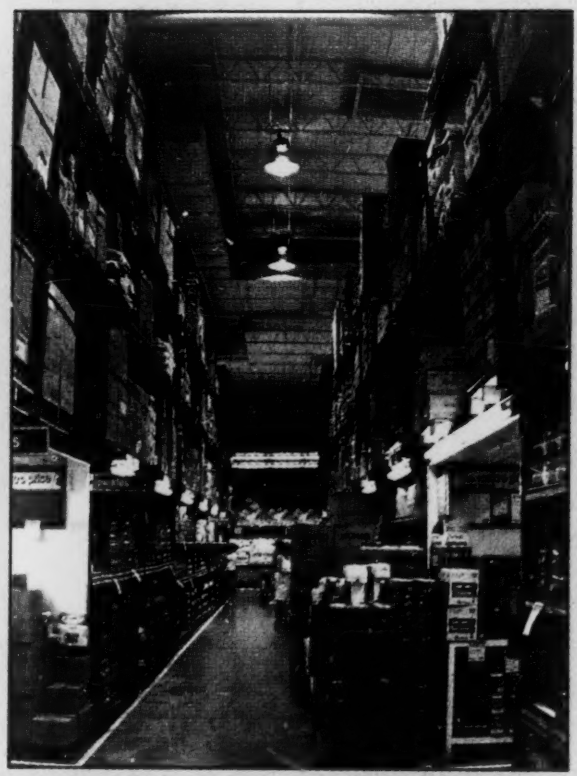


Quantifying How Non-Food Treats Groceries; Average margins, turns, % of total store sales, etc., for snacks, pet foods, household cleaners & beverages

Features

FM Special Report: How Retailers Handle Groceries in Non Food Stores

Special industry survey pinpoints how many chains carry grocery items like packaged groceries, candies, snacks, cleaners, pet foods and beverages and why chains stock them. Also, we have exclusive data on how much space each grocery category gets in the average nonfood store as well as each segment's average margins and average turns.



Alcoholic Beverages: Coolers and California Wines Stand Out in Flat Category

Growth segments in the alcohol category, plus the strategies drug and discount chains are using to merchandise alcohol today.

307422
AMORE' PINK
CHAMPAGNE 750ML
$2.29

Pet Care: Non Food Chains Have a New, More Aggressive Approach to Pet Care Sales

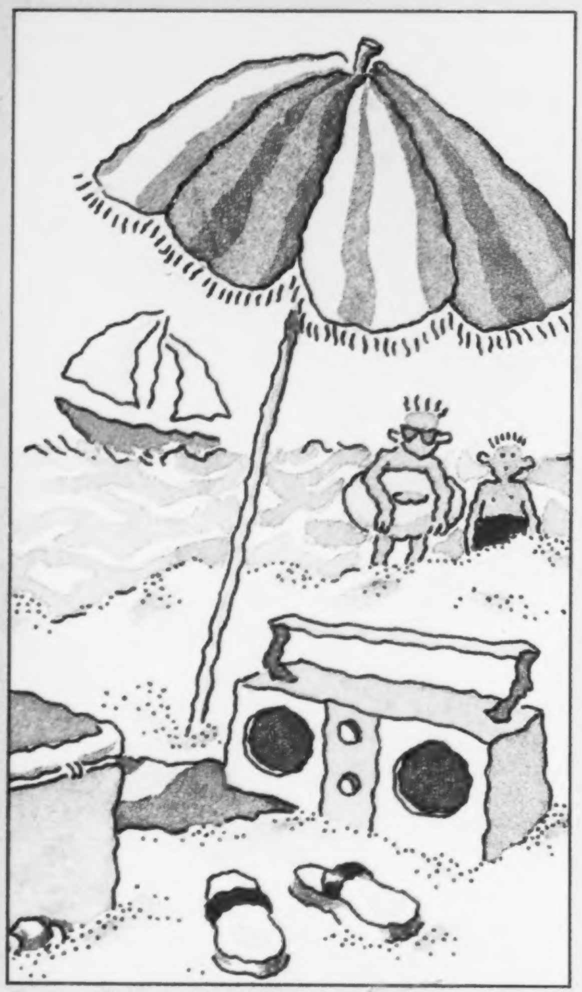
More chains today are putting in or expanding their pet care departments. Buyers say the addition of pet foods to their stores attracts more traffic to their high margin pet accessory departments.

Departments

Food For Thought

Last summer's dog days made beverages this year's hottest grocery category.

Sami: Category Seasonality Report



Best selling categories of summer

Food Merchandising for Non Food Retailers

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Long Hot Summer Sparks Beverage Sales In Non Food Store: Gatorade was "Outstanding"

Elizabeth Parks

It's been a long hot summer, and in some chains, sales suffered because people didn't want to stir, let alone shop.

But at least nonfood retailers report there was one bright spot in the almost constant 90 degree weather: beverages.

According to most buyers for nonfood chains, all beverages did well this past season, but some beverages, in the words of many buyers, were "outstanding."

Just about every buyer I'm talked to in August reported that their sales of Gatorade were "phenomenal" this past season.

Buyers say all their flavors are selling well this year, but their two newest flavors, Citrus Cooler and Lemonade, are doing phenomenally well.

"Gatorade had a great year with us last year, but this year it's even stronger," said one buyer for a mid-west drug chain. "It's incredible. It seems like everyone who steps outdoors has been drinking it. It's partly because it's the only brand in its category. It has about a 98% market share, but you also can't turn on a sporting event anywhere without seeing some athlete drinking Gatorade."

A new juice/bottled water drink, Stroh's Sun Dance, also sold well this past quarter, helped by an aggressive advertising campaign from Stroh's, and by the fact that many nonfood chains jumped on Sun Dance, almost from its first launch day.

According to brokers who handle Sun Dance, Stroh's did something very unusual for a manufacturer launching a new grocery item: they introduced it to the nonfood trade at the same time they introduced it to the food trade and many nonfood chains were actually quicker than the food chains to promote and feature Sun Dance.

According to the sales reps who sell Sun Dance into the stores, about 25% to 30% of Sun Dance's volume right now is coming through the nonfood trade.

Nonfood chains usually like to work on ads six to eight months down the line, but sources say that Wal-Mart took two weeks from the time their buyers first saw the Sun Dance presentation to the time they ordered the item.

"Their management saw the advertising Stroh's was putting behind it. They liked the uniqueness of the product, and they just turned on a dime. They dropped other items they had planned to promote and they just made space for it. It's been one of their hottest items this year," said a well placed source.

In Washington, D.C., the People's operated chain of Bud's Discount Drug stores had a mid-summer massive display of Sun Dance in the back of their stores next to Coke and Pepsi.

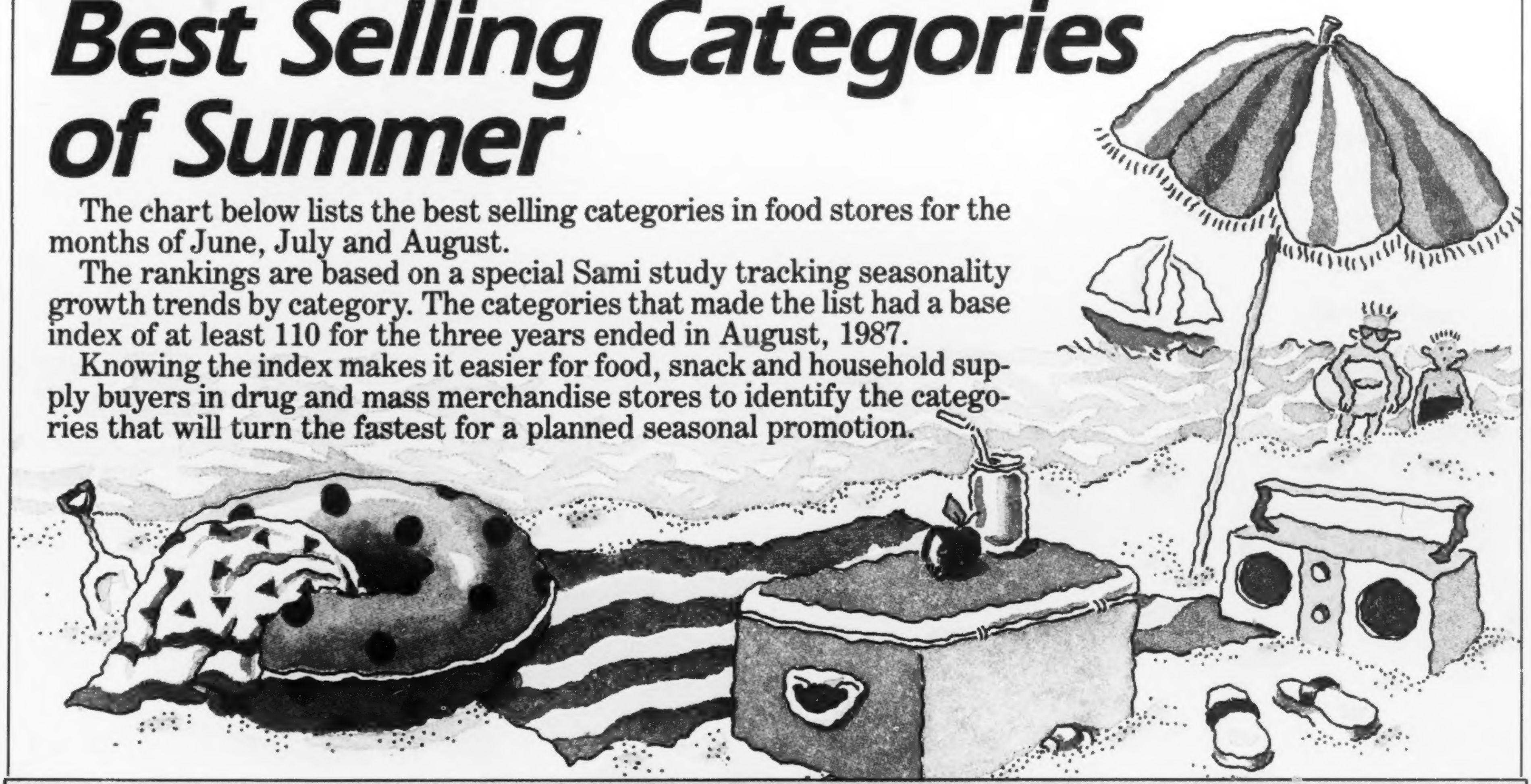
At a time when the food chains were primarily selling the beverage at a full mark-up with retails averaging about $2.99, Bud's set up bulk displays and promoted the item at $1.99. One store actually had 100 cases on display one week-end.

Best Selling Categories of Summer

The chart below lists the best selling categories in food stores for the months of June, July and August.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in August, 1987.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.



Foods and Groceries: Best Sellers of Summer
(Average three year index ranking)

June		July		August	
Foods	Index Ranking	Foods	Index Ranking	Foods	Index Ranking
Fruit Pectin	260	Fruit Pectin	268	Freezer bars	185
Freezer bars	231	Freezer bars	227	Vinegar/cooking wines	169
Barbecue sauce	152	Vinegar/cooking wines	162	Fruit Pectin	164
Canned prepared salads	149	Canned prepared salads	153	Iced tea mix/liquids	141
Iced tea mix/liquids	144	Iced tea mix & liquids	152	Soft drink mixes	122
Relishes	143	Barbecue sauce	148	Reg soft drinks	122
Pork & Beans	135	Relishes	145	Bottled water	122
Instant tea	127	Beans/Pork & Beans	136	Lemon/lime juices	117
Soft drink mixes	126	Soft drink mixes	135	Instant tea	116
Reg soft drinks	121	Reg soft drinks	131	Baking powder/soda	116
Mustard	120	Instant tea	126	Potatoe chips	115
Lo-cal salad dressing	119	Lemon/lime juices	123	Lo-cal soft drinks	115
Pourable salad dressings	119	Mustard	121	Granulated sugar	115
Meat sauce	118	Canned shrimp	121	Canned salads	113
Lemon/lime juices	118	Potatoe chips	121	Canned tuna	112
Juices/Juice Concentrates	118	Cocktail mixes, dry & bottled	121	Cocktail mixes, dry & bottled	112
Canned meat spreads	118	Spoonable salad dressings	118	Packaged gum	111
Canned sausages/franks	118	Pourable salad dressings	118	Packaged tea	111
MSG/Meat Tenderizers	118	Meat sauce	118		
Nonfoods					
Insect repellents	258	Insect repellents	249	Insect repellents	160
Charcoal	202	Charcoal	201	Charcoal	132
Charcoal lighter	184	Charcoal lighter	183	Insecticides	130
Insecticides	140	Insecticides	138	Soil/stain removers	124
Car care products	135	Plastic flatware	136	Charcoal lighter	120
Plastic flatware	131	Car care products	135	Food storage bags	120
Paper/plastic plates	122	Paper/plastic plates	127	Car care products	118
Paper/plastic cups	118	Soil/stain removers	124	Bleach	116
Soil/stain removers	118	Paper/plastic plates	123	Upholstery cleaners	115
Bleach	113	Disinfectants	113	Rug cleaners	114
Window cleaners	112	Bleach	113	Mildew removers	112
Soaps-hand & bath	112	Tampons	113	Window cleaners	110

Source: Sami Seasonality Report

FM Special Report:
How Nonfood Chains Market Groceries

What's New In Grocery Merchandising

The search is on for more exciting new products. Nonfood chains are becoming more willing to take chances on new items, and buyers say one benefit is they can usually take longer margins.

Buyers are looking to expand their grocery assortments. They want more variety and new items.

Nonfood chains seem to be getting more daring with the types of groceries they're willing to promote, and sources are also reporting they have less of an inclination to low ball groceries or to advertise at cost.

Many buyers tell Fm that they are asking their brokers and venders for earlier information on upcoming new products.

The food buyer for a mid-west drug chain said she doesn't want to wait two years to promote something "new and hot that the grocery chains have introduced."

"It used to be," she said, "that I'd want to be 100% sure of an item's tonnage potential before I'd promote it. That meant I'd go with proven winners like a Star Kist Tuna or a Smuckers grape jelly.

How Grocery Sales Break Out

Segment	Drug	Discount
	(% of total company sales)	
Cleaners & other non-edible groceries	8.5%	11.5%
Edible packaged groceries (excluding candies & snacks)	7.6	10.3
Candies & snacks	10.9	6.6

Source: Lebhar Friedman Research

"But now we've had a lot of success with food and I'd like to be quicker to offer my customers some of the hot new things, like a Sundance or an asceptic pack at a good price.

"As long as the manufacturer is going to support their brand with major advertising, I know it will sell, and I'd like to have a chance to feature some new things if I could just hear about them early enough."

Trend is to low ball groceries as little as possible

Many buyers also say they don't have to be as competitive with some of the new items because the food chains haven't started to low ball it yet. As one source puts it, "that gives us a chance to offer the consumer something very attractive at a good price, but at a price where we can still make money. On some of the new items I've looked at, I can make 20% to 25% when I advertise it from a deal."

Buyers say it still depends on

GINGER ALE
GINGER
GINGER
Gatorade
Gatorade
Nips
BETTER CHEDDARS
Thin Mints
PREMIUM
PREMIUM
RITZ

Most nonfood chains try to stock brand names in their grocery departments. Buyers say they need to stock the items that people want.

How Groceries Perform in the Nonfood World

Grocery segment	Everyday Margins		Annual Turns	
	Drug	Discount	Drug	Discount
Candy/gum	26.7%	23.0%	17.0	17.0
Paper Products (facial tissues, etc.)	17.6	15.1	15.7	17.5
Household cleaning supplies	19.2	15.3	9.1	16.5
Chips/snacks	25.1	20.0	16.6	23.6
Non-alcoholic beverages	20.9	14.9	15.7	27.1
Pet foods & accessories	25.1	23.5	6.4	18.3
Packaged/canned dry groceries	22.0	19.7	7.1	23.1
Beer/wine other alcoholic beverages	24.0	13.5	7.3	21.3

Source: Lebhar Friedman Research

the region, but whenever possible they are trying to take longer margins on foods and non-edible groceries.

"If I'm in a very competitive market and I have to worry about building volume for my stores, then I'll go out at cost on the high consumption grocery categories," said a buyer for a major discount chain.

A Zayre's manager said that their philosophy is to go out at cost "only when you have to, only when you really want to make a statement and you are advertising a very competitive item like soft drinks."

But he added that he felt consumers don't mind paying another ten cents or so for the convenience of making the purchase "while they're in my store. People ask us for soft drinks," he said, "they ask for juices, they ask about cleaners and pet foods and groceries. If they pay 10 or 20 cents more, they don't seem to mind because of the convenience. However if we were 30 or 40 cents higher than food stores, I think it'd hurt us. We'd lose the sale and we'd get a bad image. So the trick is to make money but don't be perceived as high priced."

Buyers are searching out hot new winners

This year buyers say their brokers are introducing them to more new products earlier in the cycle, sometimes even before the brand has had a chance to take off in food stores.

How Drugstores Compare to Discount Stores On Food Merchandising

Grocery segment	% of nonfood retailers carrying lines	
	Drug Everyday	Discount Everyday
Candy/gum	93%	100%
Paper Product (facial & toilet tissues, etc.)	90	100
Household cleaning supplies	93	97
Chips/snacks	83	97
Non-alcoholic beverages	70	87
Pet foods & accessories	67	87
Packaged & canned dry groceries	37	50
Beer, wine and/or other alcoholic beverages	47	27

Source: Lebhar Friedman Research

Venture was buying Sundance on promotion just as it was starting to sweep the nation back in the spring of this year, and many of the wholesale clubs like Sam's and Price Saver had it even earlier.

A source for Wal-Mart says that when they hear about a new product from a vendor or broker, they go into the food stores to see how the food chains are treating the brand or the category.

If the food chains are giving it a lot of floor space and if the manufacturer is supporting it, the source said their tendency is to buy it in conservative quantities and see how it sells.

If it sells well, the buyers reorder while it's still on deal, and if it really sells well, then it goes into the planogram for everyday merchandising.

Many of the nonfood chains are taking this approach with the microwave category. Some sources even say nonfood chains do a better job with microwavable foods than food chains do.

All the major nonfood chains have had great success with microwave popcorn and with the Pillsbury microwavable cake mixes. Now many are starting to promote a cold pack microwavable cheese food made by the Kaukana Co. in Wisconsin.

Drug Emporium and Gibson stores have tried it and sources report good sell throughs. The item comes in a shelf stable cup and it has an everyday retail of between $1.79 and $1.99.

Other buyers are taking about testing a new microwavable toaster pastry that Mericco Co., a division of Anheiser Busch, had developed.

Deep discount drug stores promote groceries aggressively. Displays are massive and designed to generate impulse sales.

Several sources are also talking to Safeway foods about merchandising some of their private label brands including the Busy Baker which one source says has a very strong following in certain regional markets.

% of Print Advertising Budget Spent on Grocery Product Ads

Grocery segment	Drug	Discount
Candy/gum	3.7%	2.3%
Paper Products (facial tissues, etc.)	5.2	5.1
Household cleaning supplies	3.3	5.1
Chips/snacks	4.4	2.4
Non-alcoholic beverages	5.7	4.8
Pet foods & accessories	1.9	3.2
Packaged/ canned dry groceries	1.5	13.0
Beer/wine other alcoholic beverages	7.6	2.5

Source: Lebhar Friedman Research

How Space Is Allotted Everyday Groceries
(% of department space allocated in average store)

Grocery segment	Drug	Discount
Candy/gum	6.7%	4.2%
Paper Products (facial tissues, etc.)	7.0	4.8
Household cleaning supplies	5.7	6.5
Chips/snacks	5.1	4.9
Non-alcoholic beverages	5.4	5.5
Pet foods & accessories	4.1	6.3
Packaged/canned dry groceries	7.2	5.7
Beer/wine other alcoholic beverages	11.6	4.2

Source: Lebhar Friedman Research

Wal-Mart earlier this year was very successful with the Eight O'Clock A&P private label. They didn't advertise it often, but they kept the single serve pacquettes in their sidekick merchandising program for months, and managers say sales were excellent.

Buyers and brokers also say they expect to do very well with a new snack pack that Smuckers is bringing out. The pack contains preserves plus crackers and several brokers say it is a "natural for the nonfood trade."

"It's a great snacking item. It's convenient. It's a good brand name, and there's nothing else like it out there right now. It should go over very well," said one discount chain food buyer.

Also buyers say they are very excited about Quaker's new asceptic pack for Gatorade and Motts new multi-fruit flavored applesauce six pack.

At press time, Target, K mart and Wal-Mart were all reviewing these lines, and several sources said they expected to promote them "as soon as possible."

"I'm also looking for a new type of snack to promote," said one buyer, "and these kinds of things are perfect. They're appealing to consumers. They're quality brands and until the food stores start going crazy with them, I can advertise them and make about a 20% margin. Everyday, I can sell them and take about a 30% margin.

"I can always get turns with snacks, but with these kinds of items, I can make money too."

307422
AMORE' PINK
CHAMPAGNE 750ML
$2.29

Many warehouse club stores sell beer, wine and alcohol. Buyers say the category presents "opportunities".

Liquor Sales Continue Flat

Coolers are still experiencing moderate growth, but beer, wine and hard liquor, in both sales and consumption, are all flat or down. Consumers, in a moderate mood, are seeking healthier beverages.

Alcoholic beverage sales remained slow in 1988. Wine and the darker liquors like scotch, bourbon and rye continued to experience consumption declines and flat sales.

White spirits enjoyed somewhat better growth, but nothing that can be described as dramatic.

According to buyers and industry experts, diet or health positioned drinks including light beverages were still in this year, and flavors such as peach, raspberry and coconut, were still popular.

But generally in 1987 and continuing through 1988, the story is that individual brands managed to generate growth, but, with a few exceptions, most categories did not.

Beer Tonnage Sales Trends (millions of 31 gallon barrels)

Segment	1986	1987	% chng
Premium	43.0	41.5	(3.4%)
Light	22.1	24.0	8.6%
Popular	24.0	23.7	(1.3%)
Imported	4.7	5.1	8.5%
Super Premiums	2.9	3.2	10.3%
Malt liquors	2.8	3.0	(6.7%)

Source: Beverage Industry Magazine

According to Impact, one of the beverage industry's leading publications, alcoholic beverages, in 1987, lagged behind other beverage segments in total dollar growth.

Impact says in 1987, alcoholic beverages posted a modest 1.5% increase in retail sales to $54.9 billion. In 1987, Impact reports that sales for the total beverage industry were up 2.3% to $125.4 billion.

Impact also reports that alcohol's share of total beverage sales is also dramatically down. In 1975, alcoholic beverages had a 50% share of sales. Last year, Impact says their share was just 43.8%.

In 1987, beer posted a modest 1.8% gain to $30.2 billion at retail. Wine was flat with $7.2 billion in sales. Spirits were also flat with $15.7 billion in sales.

Retail sales for coolers, however, soared 19.2% to $1.8 billion. The only other beverage category to experience such strong growth was bottled water, up 12.5% to $900 million in retail sales.

Impact records that alcoholic

beverages are continuing to decline in popularity. Total alcoholic beverages rang up a 43.8% share of retail sales in 1987. But, in contrast, they commanded a 54% share in 1970, and they had a 44.1% share in 1986.

Beer continues to be the dominant alcoholic beverage of choice for most Americans. Beer had a 24.1% share of retail sales in 1987, compared to 24.2% in '86 and 23.5% in 1970.

Wine had a 5.7% share last year, down 0.2 points from 1986 and up from 5.1% in 1970. Spirit had a 12.5% share last year, down 0.3 points from 1986 and down from a high of 25.1% in 1970.

Coolers, which had less than a 0.05% share in 1980, had a 1.4% share in 1987, up 0.2 points from 1986.

U.S. Alcohol Beverage Consumption: Share of Total Market

Category	1970	1986	1987
Beer	85.3%	84.9%	85.0%
Wine	6.0	6.8	6.7
Distilled Spirits	8.7	5.8	5.7
All Coolers	n.a.	2.4	2.5
All Alcoholic Beverages	100%	100%	100%

Source: Impact Databank

1987 Comparison of Alcoholic Beverages by Category (gallons vs. retail sales)

	Gallons	Retail Sales
Coolers	2.5%	3.3%
Distilled Spirits	5.7	28.6
Wine	6.7	13.1
Beer	85.0	55.0

Source: Impact Databank

In 1987, only one segment of the alcoholic beverage category, coolers, turned in any significant consumption gains.

Before the start of this decade, Impact reports that alcoholic beverages had consistently outperformed the beverage market as a whole on consumption growth.

But since 1980 on, the "national mood of moderation," coupled with legislation raising state drinking ages and imposing new taxes and stiffer laws against drunk driving, have "hobbled" the growth of alcoholic beverages with the one exception of coolers.

Impact says that in 1987, alcoholic beverage consumption was down 0.2% in 1987 to just 6.8 billion gallons consumed, and their share of beverage volume was also down 0.2 points to 15%.

Impact also records that three of the four alcoholic beverage categories they track turned in consumption losses last year. Beer was down 0.1%, wine was down 1.8% and distilled spirits were down 1.9%.

Coolers did continue to grow, up 6.1% to 173 million gallons. But even in this segment, the picture was not as bright as retailers and manufacturers would like it to be.

Most sources agreed that the 6% growth was good in a down category, but it's also obvious that coolers are reaching their maturity or saturation point. In 1986, for example, consumption for the category was up a whopping 66.3%. It's fairly clear the coolers will not be attracting many more new users. The category's reached its maturity.

1987 Comparison of Alcoholic Vs. Non Alcoholic Beverages (gallons vs. retail sales)

	Gallons	Retail Sales
Alcohol	19.3%	43.8%
Non Alcohol	80.7	56.2

Source: Impact Databank

U.S. Beverage Consumption Trends (millions of gallons)

Category	1986	1987	% change	Average Annual Compound Growth Rate 1980-'85
Beer	5,794	5,788	(0.1%)	0.5%
Wine	466	457	(1.8)	0.6
Distilled Spirits	398	390	(1.9)	(1.2)
All Coolers	163	173	6.1	n.a.
All Alcoholic Beverages	6,821	6,808	(0.2)	0.7
Soft Drinks	11,640	12,060	3.6	3.9
Coffee	5,700	5,755	1.0	(0.1)
Milk	5,057	5,071	0.3	0.2
Fruit Juice/Drinks	2,547	2,558	0.4	2.1
Tea	1,500	1,435	(4.3)	(0.6)
All Water	11,180	11,175	0	(0.1)
Other +	545	550	0.9	0.6
All Non-Alcoholic Beverages	38,169	38,604	1.1	1.2
All Beverage Consumption	44,990	45,412	0.9	1.1

+ Includes powdered beverages, non alcoholic cocktail mixes, cocoa/chocolate beverages, etc.

Source: Impact Databank

Bright Spot In Beverage Consumption

Impact magazine, a leading beverage industry publication, believes that total per capita beverage consumption is destined to rise over time.

Impact bases its theory partly on the fact that The Physician's Handbook has reported that daily liquid consumption increases as people grow older.

The Physician's Handbook reports that infants require 11 to 33 liquid ounces daily; children require 33 to 60 ounces daily, and adults require 60 to 83 ounces daily.

Impact says the fact that the U.S. adult population is growing, combined with the availability of a much broader selection of beverages and with increased purchasing power, should promote total per-capita consumption growth.

Liquor buyers say moderately priced California wines are among this year's best sellers.

Coolers and California Wines Are '88's Best Sellers

Retailers report their best liquor sellers are coolers, California wines and light and imported beers Buyers say coolers are the "brightest spot" this year in the liquor category, and they say the best promotions feature "price and assortment"

U.S. Alcohol Beverage Consumption Trends (gallons per person)

Category	1986	1987	% change	Average Annual Compound Growth Rate 1980-'85
Beer	24.03	23.78	(1.0%)	(0.5%)
Wine	1.93	1.88	(2.9)	(0.4)
Distilled Spirits	1.65	1.60	(2.9)	(2.2)
All Coolers	0.68	0.71	5.1	0.05
All Alcoholic Beverages	28.29	27.97	(1.1)	(0.3)

Source: Impact Databank

Except for coolers, the liquor category is virtually flat in today's market place. Retailers who do stock liquor report there are no bright spots in the category right now.

Most say coolers are continuing to sell well, although no one is seeing anything like the growth surges of 1985 and 1986. Most sources say the fruit flavored wines and coolers are selling the best, and a few sources are seeing a surge of sales in the premium or better California wines, especially for chardonnays, white zins, and cabernets.

Jug wines are also selling well, although no one reports any dramatic growth, just "a good steady business."

Imported and light beers are still doing well, but the growth of the Mexican beers is starting to peak in some markets.

This year, buyers say their strongest merchandising tool is price. Buyers say they are careful to buy at the lowest possible acquisition costs, because their sell throughs depend on the value they can offer the consumer.

Few chains report that they are expanding space for liquor in 1988, and most say they are continuing to carry a good assortment "to give shoppers a good selection" and they're continuing to advertise liquor to make it visible to their shoppers.

The biggest new items this year, most buyers say, are the new flavors that the cooler manufacturers are introducing. Seagrams, Bartles and James and Gallo, in particular, are introducing line extensions that most buyers say are selling well.

"The wine cooler category is certainly not as hot as it once was," says a source for a southwest-based drug chain, "but by introducing new flavors, they're helping to build the business."

Several sources report that their movement on the Bartles and James red coolers "is dead." However, B & J is extending into berries and into tropical flavors that buyers say look like they will do well.

Seagrams has about seven flavors out now, and their variety, in combination with their aggressive ads, are helping sales tremendously. Most buyers say the Seagrams coolers are among their best sellers.

Several buyers are starting to report stronger sales of their California varietals, and they say this is because many California manufacturers are starting to get behind these wines now to promote them as alternatives for German and French wines that are going up again in price.

"I think they're starting to cut into my market for German wines," said one source. "About three years ago, my customers were paying about $4 for a bottle of German or French wine. Now it's up to $7."

Buyers say the Italian wine market still belongs predominantly to Riunite, but they say Riunite's growth overall is still flat. Many buyers report that their Riunite sales are about where they were a year ago. The peach flavored Riunite is still selling well, and some sources say that is what is still keeping the brand strong.

Among the California wines, many sources say that Sebastini has had a resurgence, and is selling very well now. "For some years, it was a dead horse," said one buyer, "but now it's doing very well for me."

Sutter Home is selling well, especially its White Zinfandel. White Zins and the blush wines, in fact, are doing much better this year.

Jug wines are still selling okay, especially Gallo and Inglenook. However, retailers are trying to push their customers up to the $4 and $5 California premium wines.

Some chains are even putting in small four ft. sections for the California varietals, and buyers say they plan to advertise them more.

In some parts of the country, buyers report a surge in low end imports like the Yugoslavian wines, the cheaper Cote du Rhones from France and some of the low end German wines.

Several chains report success promoting these wines as "Specials from the Wines of the World." In some cases, they have advertised them for as low as three bottles for $7.

"The deal is basically put together by my wholesaler," says one source in the west. "He gets the manufacturer to come out at a good price and he'll offer me a good package of maybe one Yugoslavian wine, a German wine and a French

U.S. Beverage Retail Sales (billions of dollars)

Category	1986	1987	% change	Average Annual Compound Growth Rate 1980-'85
Beer	$ 29.7	$ 30.2	1.8%	6.6%
Wine	7.2	7.2	0	3.4
Distilled Spirits	15.7	15.7	0	2.4
All Coolers	1.5	1.8	19.2	n.a.
All Alcoholic Beverages	54.1	54.9	1.5	5.3
Soft Drinks	36.7	38.7	5.6	9.5
Coffee	6.0	5.3	(11.5)	(1.5)
Milk	11.5	11.8	2.0	2.6
Fruit Juice/Drinks	11.2	11.6	3.4	12.4
Tea	1.4	1.3	(5.4)	6.4
Bottled Water	0.8	0.9	12.5	15.0
Other +	0.9	0.9	(0.3)	4.5
All Non-Alcoholic Beverages	68.5	70.5	2.9	7.4
All Beverage Consumption	122.6	125.4	2.3	7.4

+ Includes powdered beverages, non alcoholic cocktail mixes, cocoa/chocolate beverages, etc.
Source: Impact Databank

U.S. Beverage Retail Sales: Share of Total Market

Category	1970	1986	1987
Beer	23.5%	24.2%	24.1%
Wine	5.1	5.9	5.7
Distilled Spirits	25.1	12.8	12.5
All Coolers	n.a.	1.2	1.4
All Alcoholic Beverages	54.0	44.1	43.8
Soft Drinks	17.1	29.9	30.9
Coffee	4.8	4.9	4.2
Milk	16.3	9.4	9.4
Fruit Juice/Drinks	5.9	9.1	9.2
Tea	0.8	1.1	1.0
Bottled Water	n.a.	0.7	0.7
Other +	0.5	0.7	0.7
All Non-Alcoholic Beverages	46.0	55.9	56.2
All Beverage Consumption	100%	100%	100%

+ Includes powdered beverages, non alcoholic cocktail mixes, cocoa/chocolate beverages, etc.
Addition of columns may not agree because of rounding
Source: Impact Databank

Imported beers and light beers stand out in a flat category. Coors, Heineken and Corona are selling well.

wine. At $7 for three bottles, I don't make much money, but I can draw traffic and I can get more customers into the department."

In beer, the best selling brands still depend on the region of the country. In the mid-west, Mexican beers are still selling well, but in the south, some buyers report a slow down. Corona is still strong, but not as hot as it was last year at this time. Heineken is still doing well, but not spectacular. The best selling American beer is still Bud and Bud light. The light beers are still strong.

Some buyers say they would like to try the "copy cat" Mexican brands coming out as well as the newer, exotic beers like Jamaican beer, but most say they can't get the price points down low enough to make the assortments attractive in their stores or for their customer base.

"If I have to sell Jamaican beer at $21 a case, I don't want it," said one source.

In imports right now, many buyers say their fastest growing brand is Coors.

Very few chains could report any particularly strong promotions this year. Most buyers said the only thing that sells alcohol right now is price.

Brown goods are continuing to decline. The best selling brands are often dependent on regional preferences, but Jack Daniels is often named as a bestseller, so are Johnny Walker, Seagrams Vo, Crown Royal and Dewar's.

Many buyers say their small size liquors were doing the bulk of the volume this year, one source said his small sizes outside the bigger sizes "five to one," but the 1.75-oz. bottles were still popular in ads, especially for some of the bigger chains like Walgreens and K mart.

Outlook For Tomorrow's Alcohol Market

What will be the nation's strongest selling beverages from now through the 1990's?

In its 1988 Review and Forecast edition of Beverage Trends in America, Impact magazine signals out soft drinks, coolers and fruit juice/drinks as the growth areas for beverages from now through the year 2000.

Impact predicts that the overall beverage market will expand 1.4% a year through 1990, reaching 47.8 billion gallons in 1995 and 51.5 gallons by 2000.

By 1990, Impact expects that alcoholic beverage volume will be winnowed down to just over 6.7 billion gallons, where Impact thinks the market will remain through the year 2000 and beyond.

Their market experts feel that alcohol's share of beverage consumption will dwindle from 14.1% in 1990 to 13% in 2000.

Impact says that beer volume will probably erode at a modest but steady pace over the coming years, slipping to just over 6.7 billion gallons by 1990, and to below 5.6 billion by 2000.

Impact thinks wine will dip to about 445 gallons by 1990, but should recover to maybe 459 million gallons by 2000.

Spirit consumption will probably slide more dramatically, going down to about 385 million gallons by 1990 and to 357 million by 2000.

Coolers, which were at 187 million gallons in 1987, could climb as high as 316 million gallons by 2000. By the turn of the century, Impact thinks coolers may account for 4.3% of all alcoholic consumption. They account for 0.4% now.

Non Foods New Approach To Pet Care

Many chains are setting up permanent pet food departments. Foods lure customers & create the environment for sales of higher margin accessories

Credit line: Photo by Ray Garland

Drug and discount chains are catering to pet lovers by adding or expanding pet care departments.

After years of promoting pet foods as a traffic builder, drug and discount chains are beginning to give the category more attention as a permanent everyday department.

- Zayre's, which is headquartered in Boston, has made pet foods a permanent department in all stores;
- Jack Eckerd is rolling out permanent departments in almost all of its drug stores;
- Rich's Department stores is putting in a permanent pet food set this year;
- K mart is testing a permanent department in about 100 stores;
- S.E. Nichols is testing the section in a handful of stores and is reportedly set to roll it out shortly;

Fay's Drug is testing a permanent set;

Caldor is poised to launch a test; and Drug Emporium is in the process of rolling out 12 to 16 ft. departments to almost all its stores, both company and franchised.

% Pet Food Sales by Category Segment

Segment	% share of Dollar Sales
Dog Food Dry	32.0%
Dog Food Wet	16.0
Dog Food Snacks	7.0
Dog Food Semi-Moist	3.0
Cat Food Wet	21.0
Cat Food Dry	14.0
Cat Food Semi-Moist	4.0
Cat Food Snacks	0.5
Miscellaneous (bird food, gerbil & hamster food, etc.)	2.5

+ Food store retail sales only, for period ended in January.
Sami Dry Grocery Food Category Trends

Buyers tell Fm they're attracted to pet foods because of the category's dollar volume. According to Sami, in food stores alone, pet foods generate nearly $6 billion a year in retail sales.

Many buyers also say they see a way to maximize sales in higher margin accessory departments by having pet foods in their stores as a customer draw.

A source for Zayre's said they feel they may be able to increase their high margin pet accessory sales "two or three times what they have been" by having pet foods in their stores, near accessories.

Several sources said that as a nearly $6 billion dollar category, pet foods are "big business" and that it therefore makes sense for retailers who carry other tonnage categories like candy, snacks and soft drinks to stock pet foods as well.

"A category that big is going to do well on promotion and everyday too," said one buyer for a major discount chain.

"Right now," said the Zayre's source, "we make about 60% average gross margins just on pet accessories. Everyday, we make between 20% and 30% on the foods, but since we put the foods in last year, our pet accessory sales have gone up over 50%.

"In the end, it could be possible that we'll triple or even quadruple our accessory business just because of the tie in to the foods."

Many of the nonfood chains are also putting the department in the back of their stores near higher margin general merchandise. Many discount stores locate the department near auto supplies and lawn and garden, while drug chains have it close to auto supplies or household gadgets and housewares.

In discount stores the average department runs from about 16 ft. to as much as 60 ft., but 20 to 40 ft. is more typical. The size depends on the store and whether or not it is in a neighborhood with what retailers call "a high pet index."

In Zayre's case, their new pet food section ranges from 20 to 40 ft. and it is partnered with a free standing floor display of Hartz pet accessories.

The department stocks most of the major brands including selections from Ralston Purina, which makes Dog Chow, Puppy Chow, Chuck Wagon, Meow Mix, Tender Vittles, Cat Chow and Kitten Chow; Star Kist, which makes 9 Lives, Quaker Oats, which makes Gravy Train and Gainesburgers, and Carnation which makes Friskies, Fancy Feast, Mighty Dog, Chefs Blend and Come & Get It, etc.

Several manufacturers whose brands are in the department say their sales are up more than 80% over last year, but that is also due to the fact that the department is new and that Zayre is getting business it never had everyday before.

The chain has always aggressively promoted pet foods, however, and they are continuing their promotions to make consumers aware that they carry the pet food lines everyday.

They also use banners over the department to catch the attention of in-store shoppers.

Caldor has not been as aggressive with pet foods, but sources for the chain said they are going to test pet foods this year, either promotionally or everyday or possibly both.

One source said they even had the planogram worked out. It will be for 8 to 12 ft. sections and it will stock about 60% cat food versus 40% dog.

Rich's has also started promoting pet foods, and the 30 store chain is going to be testing 16 ft. pet food departments starting this fall. One source said the chain will initially put the departments into about a third of its stores and if they are successful, they will roll out chainwide very quickly.

Most buyers say they think most

Pet Food: Brand Share of Dollar Sales

Brand	1984	1985	1986	1987
Ralston Purina	27.0%	26.7%	27.3%	28.7%
Friskies	11.9	12.1	12.0	12.4
Quaker Oats	7.1	7.1	13.1	11.1
Heinz	7.4	7.8	8.3	102
Kal Kan	8.7	8.4	9.3	9.4
Alpo	6.2	7.1	7.1	6.3
Gaines	6.8	6.6	*	*
All Others	24.9	24.3	23.0	22.0

*not available
Source: Maxwell Report

What's Hot In Pet Accessories

This year, discount stores are making more space for pet accessories in their aisles.

Buyers say that their pet accessory sales have been increasing at rates ranging from 20% to 50%.

Conventional pet accessories like feeding bowls, brushes, shampoos, flea powder products and toys are strong in almost all types of nonfood stores, including drug chains.

But the discount chains like K mart, Wal-Mart, Target, Venture and Gold Circle are also doing very well with larger accessory products like cat litter boxes with hoods and portable pet carriers.

According to A&B marketing, a Cleveland-based broker that sells to most of the major nonfood chains, Pet Taxis, made by Doskocil in Arlington, Tex., is still selling well in discount stores, especially the smaller sizes that retail anywhere from $10.99 on sale to about $16.99 everyday.

This year, Doskocil is introducing a new improved model in a pastel blue shade and buyers say it should be "fantastic." The price is the same but the cage now has a double locked door, and a small compartment on top for treats or medicine.

Several discount store buyers say they are also thinking of expanding their assortment of cat and dog food and water bowls. Doskocil is also coming out with the industry's first full line assortment of bowls in a variety of types, sizes and shapes, and buyers say the line, called Pet Mate, may be just what they need to round out their accessory program.

"It's the first time I'll be able to tie in litter pan purchases with a full pet bowl line," said one buyer. "It's convenient and I think it might do well in our stores."

This Christmas, many chains are also planning to advertise what A&B's Gene Ambrose called "the hottest new item in the category: mini-acquariums."

Also known as desk acquariums, the mini's come in self-contained one and two gallon sizes and buyers say they are really in demand this year.

"People are buying them as decorations for the house," said Ambrose. "You see them all over, in department stores as well as stationery stores. They're in right now."

The mini's are made by several manufacturers, but several buyers singled out a company called Hawkeye in Gardner, Kan., for making a particularly good line.

Wal-Mart now carries the mini everyday, and sources said they will probably promote them this Christmas. Fisher Big Wheel, Target, Thrift Drug and Gold Circle also have them, and some sources for these chains said they will also probably promote them for Christmas.

of their sales will be promotional at first. "We're looking to draw traffic for us, especially in the beginning," several said.

One buyer said that research shows that over half the people who shop discount stores have pets and so the category "is a natural for impulse sales."

Most sources also said they expect their volume will build slowly at first, but in a steady way. "Wal-Mart right now is getting about 20 turns a year from this category, so we think we can get our turns up to 8 or 10 a year and then maybe peak at about 15 to 17," one buyer said.

In chain drugstores, buyers are estimating they can get seven to 10 turns a year from pet food. Their departments, of course, are much smaller than the departments in discount stores, and they also generate less foot traffic.

Trends in Pet Food Sales

(Food store retail sales in millions)

Segment	1982	1987	1989	% chng. '88 vs. '87
Dog Food Dry	$1,597.9	$1,753.3	$1,742.0	(0.6%)
Dog Food Wet	814.5	827.9	850.5	2.7
Dog Food Snacks	250.6	340.0	373.5	9.8
Dog Food Semi-Moist	269.0	199.6	182.3	(8.7)
Cat Food Wet	825.9	1,119.3	1,162.3	3.8
Cat Food Dry	582.5	769.4	752.9	(2.1)
Cat Food Semi-Moist	204.0	244.8	223.0	(8.9)
Cat Food Snacks	n.a.	21.2	26.3	24.0
Miscellaneous (bird food, gerbil & hamster food, etc.)	85.5	122.7	135.5	10.0
Total	**$4,629.9**	**$5,376.9**	**$5,448.3**	**1.3%**

†Food store retail sales only, for period ended in January.

The drug chains are also a little more mixed in their reaction to pet foods. Some chains like Rite Aid have no permanent departments and seldom, if ever, promote pet foods. "Our stores are too small and there are too many problems with handling the category for us," says one source.

However other chains with small or bantam stores do have at least four ft. regular departments including CVS headquartered in Woonsocket, R.I. and Duane Reade headquarted in New York.

CVS promotes pet foods at least once a quarter and one source said their total sales from pet foods were up "30% over last year."

Duane Reade also has a four ft. set in their midtown Manhattan stores, and although Duane Reade doesn't advertise any category, their sales in this department are also up in excess of 30%, according to a source.

Duane Reade only carries cat food because their primary customer doesn't travel to the stores by car, but comes in off the street to shop for fill in items.

Jack Eckerd is also rolling out a four ft. permanent section to all its stores, and is planning some aggressive promotions to highlight the category.

One source said they were attracted to pet foods "by the size of the category" and by "its potential for impulse sales."

Fay's Drug in Liverpool, N.Y., which promotes pet foods very aggressively, is also considering a permanent department, and an 8 ft. planogram should be in test shortly, sources said.

Most drug chains only carry the 5-lb. bags of dry food as well as several brands of canned and semi moist cat and dog food. Again the mix is usually 60% cat food versus 40% dog food. Cat litter is almost always in nonfood stores, and generally most chains prefer to stock the Lowe brands, Kitty Litter and Tidy Cat 3, which dominate the litter category.

Many of the bantam drug chains tend to shy away from dry dog food promotions because of their bulk, but some sources say they are currently considering buying 4- and 8-lb. bags of dog food for "promotions."

At last one manufacturer, Quaker Oats, which makes Gravy Train and other pet food brands, is putting together some aggressive deals on these sizes, sources said.

Top 10 Gourmet Cat Food Items

(ranked by unit sales, 24 ounce equivalency)

Rank	Item
1.	9 Lives Sliced Beef/Gravy 6 oz.
2.	Fancy Feast Svry Slm 3 oz.
3.	Friskies Buffet Turkey/ Giblets 6 oz.
4.	Fancy Feast Whitefish/Tuna 3 oz.
5.	Purina 100 Tuna 6 oz.
6.	Friskies Buffet Mixed Grill 6 oz.
7.	Friskies Buffet Beef & Liver 6 oz.
8.	9 Lives Sliced Veal & Gravy 6 oz.
9.	Fancy Feast Seafood 3 oz.
10.	9 Lives Beef & Liver Platter

Source: Manufacturer Research based on Scantrack

Ralston Purina is also looking at putting together different size packs for drug and discount store retailers, including smaller bags for the drug stores and larger boxes for the discounters. Another possibility is cannister sizes for small treats.

At Carnation, their management is trying to "tailor" their promotional programs to the specific needs of individual retail chains. Earlier this year, for example, Zayre's decided to develop a program that would encourage the purchase of higher ticket cases rather than just cans of pet food. Carnation helped by developing a customized promotion that featured a generous rebate for consumers who bought either Mighty Dog or Friskies Buffet by the case rather than in pieces.

Sources say that most of the major discount chains including Wal-Mart, K mart and Target have similar types of customized promotions either under discussion or in development.

Many pet food manufacturers are also looking at shrinkwrapping canned pet foods for special promotions. Warehouse clubs have always asked for shrink wraps so they can make bulk purchases easier for their customers, but now many discount chains are asking for similar assistance.

One buyer said the ability to offer shrink wraps would give him an extra advantage over food stores because he could offer a higher savings at a greater convenience to his customers.

Drug chains, however, are not as interested in programs that feature larger size purchases because most of their stores are too small to take advantage of such opportunities. Their preference is still for promotions that feature smaller, easier to carry sizes.

One pet food buyer for a northeast based drug chain said he was attracted by the chance to feature smaller packs of dry dog food, which is the biggest segment in the category with over $1.7 billion in food store retail sales. He also said that he felt competition with food stores and with mass merchandisers would be less intense because these chains tend to favor promo-

"We can make our margins and yet still offer consumers a considerable savings on the dry foods everyday," said the source, "but we can't undercut the food stores on the canned brands and still make as much money as we like, so we just aren't going to carry the cans right now."

Drug chains today are also reacting much faster to new product introductions from the major pet food manufacturers. Longs, for example, has already featured Carnation's new Grand Gourmet in several ads, and so has Fay's and F & M.

The discount chains have traditionally been even quicker to pick up on new launches in this category. This year, both Wal-Mart and Zayre's have promoted two of Purina's newest launches, Grrravy and Hearty Chews.

Buyers say that promotions built around new items give them a chance to take a higher margin because food stores haven't gotten around yet to discounting the item. Buyers also say that with pet foods, "there is no sense having an everyday department unless you promote it aggressively and build its visibility."

Top 10 Gourmet Canned Dog Food Items

(ranked by unit sales, 24 ounce equivalency)

Rank	Item
1.	Alpo with Beef Dinner Chunks 14 oz.
2.	Kal Kan Beef Dinner Chunks 14 oz.
3.	Mighty Dog with Beef 6.5 oz.
4.	Alpo with Liver Dinner Chunks 14 oz.
5.	Mightly Dog Reg Gourmet 6.5 oz.
6.	Cycle 4 with Beef & Gravy 14 oz.
7.	Mighty Dog with Beef & Chicken 6.5 oz.
8.	Alpo Chicken Dinner 14 oz.
9.	Alpo Beef 14 oz.
10.	Cycle 2 Beef & Gravy 14 oz.

Source: Manufacturer Research Based on Scantrack

Nonfood chains think of pet care items as "convenience" categories

Nonfood chains are continuing to promote the pet food category aggressively and most are continuing to carry convenience assortments everyday to satisfy what one buyer says is "the army" of pet food lovers in the nation today.

Most buyers are continuing to support pet food, pointing out that the pet food market is very big. "So many people have pets today," says a source for Fay's Drug in New York, "that pets sometimes eat better than people."

Buyers also say they still get strong sell throughs with pet food, especially when they advertise a major brand at a hot price.

Most buyers also say they will only advertise the national brands like Alpo, Mighty Dog, Gravy Train, Gainesburgers, Puss N Boots, Purina, 9 Lives, Friskies, etc.

Discount chains, which have more space for the bulkier sizes of pet food, tend to promote the category more often than drug chains, and Wal-Mart is particularly aggressive with pet food promotions because so many of their stores are in small rural markets.

However, even in New York City, the category gets attention. Duane Reade, whose 5,000 sq. ft. stores average about $1100 a year in sales per sq. ft., almost always has some pet food on an off shelf display plus they have a modest everyday section in their small universe of stores.

"There are a lot of animal lovers in New York too," says one manager.

The warehouse clubs too are aggressive with the category, and pet food gets plenty of off shelf display in chains like Price Club, Sam's Wholesale Clubs, Makro, The Wholesale Club, etc.

Snacks for dogs are getting ad activity today, because they are an easier item to handle than the bags of dry food. Milk Bone dog biscuits is a popular feature in many chains today, including K mart. A typical ad price is $2.97 for a 4-lb. box.

Quaker Oats has a cat treat called Pounce that the company promotes once or twice a year. Longs and Thrifty have been particularly active with this item, and CVS has featured the Pounce holiday pack, a two pack stocking stuffer gift set at Christmas.

New items still don't get as much play in nonfood stores as they do in the food chains, but there are some chains that are starting to get much more active with these types of items.

Buyers say that by promoting a new item from an established manufacturer, they can attract incremental sales at an attractive margin because food chains don't usually "football" a new item in the beginning of its life cycle.

Wal-Mart and Zayre's have both promoted two of Purina's newest items: Grrravy, a dry dog food that produces a gravy when water is added to it, and Hearty Chews, a soft treat for dogs. Longs, Fedco, Venture, Fay's and F&M have all promoted Carnation's new high margin Grand Gourmet, described by one buyer as "an ultra gourmet canned dog food that looks like beef stew. Because it's expensive and positioned as a gourmet pet food, we can get a better margin from it even when we promote it," he said.

Sources from many of these chains say the promotions were successful and at least Wal-Mart and Zayre's are now adding the Purina items to their everyday department.

Bonus packs are also getting more play this year. Last March, Zayre's promoted Quaker's special 30 pack for Gravy Train. One manager says most stores sold through in less than two months.

Some chains say they are getting more aggressive with pricing in this category to compete with increased competition from wholesale clubs and deep discount drug stores as well as food chains.

However, others say they are looking for longer margins to increase their bottom line profits. There does not seem to be an overall trend in this area, however, the pricing still seems primarily determined by local competitive situations.

In this past year, the warehouse clubs have more than doubled their sales of pet foods, sources say. Today just about every major chain from Sams through Price Saver stocks pet foods everyday, and they carry everything from individual cans of cat food to cases of cat food and 50-lb. bags of dry dog food.

Top Brands

Home Products

PART I: STORE MANAGER SURVEY

Cannon Retains Crown, 5th Year Running

Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1988	1987	1988	1987	1988	1987
Cannon	53%	55%	55%	58%	40%	45%
J.P. Stevens	18	24	17	21	21	30
Pepperell/Lady Pepperell/Westpoint	9	12	9	9	11	20
St. Mary's	9	14	6	10	22	24
Springs	7	6	8	5	1	9
Burlington	4	2	3	2	8	3
Kenney	4	4	4	5	2	—
Fieldcrest	3	3	3	3	2	4
Dan River	2	3	2	4	3	1
Graber	2	—	2	—	2	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

More than half of all store managers surveyed named Cannon as a best performing brand in the domestics department. (DSN photo)

Nationwide DSN Report

The question in the domestics area, as usual, was not *if* Cannon would finish first, but by how much. For the fifth consecutive year, the textiles giant garnered over half of total mentions from discount store managers, handily outdistancing Stevens, which finished second for the third straight year.

While Cannon's finish was slightly weaker than in previous years (53 percent vs. a previous low of 55 percent), its margin over Stevens and other competitors was greater than in any year other than 1985. Stevens' share dropped for the second consecutive year, and virtually every other top brand in the domestics department lost ground or struggled to stay even.

The exceptions were Springs, which rebounded slightly from its lower 1987 finish, gaining a single percentage point, and Burlington, which doubled its 1987 share and moved up four places in the standings. St. Mary's dropped five points from third place to fourth.

Pepperell moved up from fourth to take over third place despite losing three percentage points in overall popularity. However, this marks the third consecutive year that the company has moved up in the standings, and its acquisition of second place Stevens earlier this year will possibly result in the first real competition for Cannon since the inception of the top brands poll.

There was one newcomer to the top 10, Graber, which tied with Dan River to replace Santa Cruz. Santa Cruz barely missed the top 10, but saw its share of mentions drop from 5 percent at all discounters last year to under 1 percent this year.

Cannon was fairly popular across the board among discounters, but the brand was bolstered by support shown by Wal-Mart managers, four out of five of whom mentioned Cannon. Seven of 10 K mart managers also cited the brand. At Zayre and Target, the figures were roughly 40 percent and 30 percent, respectively.

Stevens showed its greatest strength at K mart (a little over one-quarter of managers named the brand) and Target, with far weaker showings at Wal-Mart and, particularly, Zayre. Zayre managers were as likely to name St. Mary's as Cannon, but St. Mary's support at K mart and Wal-Mart was very low.

Pepperell and its associated brands did well at Wal-Mart and Target, less well at other discounters. Burlington owed its success to upscale discounters, while Kenney did exceptionally well with Zayre managers, with hardly a mention elsewhere. Dan River also turned in a strong showing at Zayre, but was nearly shut out at other retailers.

Overall, upscalers like Target tended to favor St. Mary's, Stevens, Burlington and Pepperell while giving less-than-average support to Cannon and Springs.

Regionally, Cannon received consistent support nationally, with minor variations by region. Stevens, on the other hand, did very well among Northeastern store managers and scored lower in the West. Pepperell performed well in the Northeast and the West, while St. Mary's support was very nearly limited to the Northeast. Most other brands were ranked consistently from region to region.

Cannon was again very consistent across all store sizes, but that was not true of some other brands. Pepperell, for instance, was a favorite of managers of large stores (over 100,000 square feet), finishing second to Cannon, but did not receive as many mentions from other managers. Stevens, St. Mary's, Springs and Kenney all did well with managers of medium-size stores (60,000 square feet and up), and only Fieldcrest, which didn't rate a mention with managers of large- and medium-size stores, scored well with managers of small stores (under 60,000 square feet).

Store managers as a whole were of two minds concerning future growth potential of their domestics departments. A little over half of those responding said that they expected sales to rise, but they were evenly split over how much that gain would be—over or under 10 percent. The remainder of respondents were either unsure about prospects, or pessimistic.

Asked what qualities affected their thinking in choosing top brands, managers were slightly less influenced by advertising concerns in their domestics departments than was the case in most other departments. Only 25 percent of managers said that advertising was a significant variable in domestics, compared to an average of 33 percent in all departments.

Brand recognition, cited by 30 percent of store managers, was slightly overshadowed by price considerations (33 percent). To these store managers, low prices were slightly less significant than average, as was product presentation.

Overall, managers seemed to think that a well-known, high-quality product would sell well, with or without advertising and upscale presentation. They also valued a wide, deep product line far more than was average in other departments, 17 percent to 9 percent respectively.

However, there were distinct differences among the chains studied. Upscalers (including Target) valued advertising much more than conventional discounters. However, Target managers valued domestics advertising less than any other segment.

Among conventional discounters, Wal-Mart managers, who were relatively lukewarm on the importance of advertising in their selection of a top brand, insisted upon high levels of product performance. Over 90 percent of Wal-Mart managers felt that performance was an essential attribute of a top brand.

Target managers were unanimous in citing brand recognition as a vital characteristic of top products; Zayre managers were only half as likely to be concerned about a brand's image.

Wal-Mart managers were most concerned with the sales volume of a given brand, with about one-third of the buyers citing how well it sells as an important consideration. Wal-Mart managers were also the most likely to look at warranties and manufacturer stocking as vital characteristics.

K mart managers seemed to mix up their responses more, running at just about the overall average in the attributes they felt were important. Wal-Mart and Zayre managers, on the other hand, seemed to have three or four attributes which they felt were of great importance, and others that clearly weren't of as much importance.

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Cannon	70%	83%	42%	32%
J.P. Stevens	27	18	15	24
Pepperell/Lady Pepperell/Westpoint	11	20	6	15
St. Marys	3	3	42	18
Springs	14	10	12	3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Cannon	48%	52%	59%	48%
J.P. Stevens	27	18	16	13
Pepperell/Lady Pepperell/Westpoint	12	8	8	11
St. Mary's	20	6	7	7
Springs	4	9	6	9
Burlington	5	3	3	4
Kenney	4	4	4	2
Fieldcrest	—	2	7	—
Dan River	5	—	2	4
Graber	—	2	—	4

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Tide Takes the Honors in Household Cleaners

Nationwide DSN Report

Tide laundry detergent strengthened its dominance as the top ranked household cleaner and chemical on *DSN*'s Top Brands Survey, again easily outpacing all other products in the category.

Among all chains, Tide was mentioned as a top performing brand by 48 percent of the store managers surveyed, up from 45 percent last year.

Tide also received the higher number of manager mentions by outlet type, region of the country and size of store, thus scoring an across-the-board victory.

The laundry detergent's strongest showing was at Wal-Mart and Target and at stores over 100,000 square feet in size.

Store managers reported that Tide sells well because it is a nationally advertised brand, is competitively priced, and is demanded by their consumers.

One store manager noted that Tide "has been around for a long time," which is a factor in how well it sells.

Wal-Mart and Target Picks

More than six out of 10 store managers at both Wal-Mart and Target mentioned Tide as their best performing brand in the household cleaners and chemicals category compared to five of 10 managers at Zayre and three of 10 at K mart.

Nearly seven out of 10 store managers operating discount stores of over 100,000 square feet mentioned Tide as a top performing brand, the highest evaluation of Tide's performance on the current survey.

This evaluation compares to four of 10 managers of 60,000-square-foot to 100,000-square-foot units and four out of 10 managers of stores under 60,000 square feet.

Between the two store types, conventional and upscale operators, Tide performed better at upscale discounters than it did among conventional discount stores. The brand was named by a larger percentage at Target stores than other upscale discounters.

Tide was also the dominant brand in each region of the country, with its strongest showing coming from the South. There, Tide was mentioned as a top performing brand by more than one-half of the store managers surveyed.

Tide's lowest showing came in the Northeast. Only three of 10 store managers in this region named Tide as a best performing brand and Clorox, the No. 2 finisher, was named by two out of 10 managers. That, however, was as close as it ever got, as Tide easily outdistanced Clorox in all other subcategories.

Windex and Clorox tied for the second spot on this sixth annual survey, each with 21 percent of the store managers naming the popular products as top performers in the household cleaners and chemical department.

While the tie represents an elevation in rank for Clorox over the 1987 survey—when it came in third after Windex—the percentage of managers naming each product declined this year from last year.

In the 1987 survey, Windex edged out Clorox for the No. 2 spot by two percentage points. Windex was mentioned as a top performer by 24 percent of the store managers surveyed last year, and Clorox, 22 percent.

In fourth place this year was Fantastic, which edged out Cheer laundry detergent by 0.1 percent, with 11.9 percent of store managers naming the brand, down slightly from the '87 survey. Cheer, however, was mentioned by more managers, scoring two percentage points higher than last year.

The 1988 survey represents the first time that Cheer laundry detergent broke into the top five on the Top Brands list of household cleaners and chemicals category.

Lysol, which came in fifth on the 1987 survey, with 12 percent of the store managers naming it as a top performing brand, fell to sixth place on the current survey.

Dow, which tied Lysol in last year's survey, fell to 18th place this year.

Some of the factors contributing to store manager support of the top brands include: the products's brand awareness, national advertising and public awareness through years of exposure.

Top Brands Vary by Type of Outlet

	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	1988	1987	1988	1987	1988	1987
Tide	48%	45%	47%	43%	52%	51%
Windex	21	24	20	23	24	27
Clorox	21	22	19	22	30	23
Fantastic	12	12	12	12	14	14
Cheer	12	10	10	10	19	10
Lysol	11	12	11	12	11	10
Downey	9	7	7	5	20	11
Comet	9	9	9	9	5	10
Purex	8	4	9	6	—	—
Formula 409	7	8	7	11	4	3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

One store manager commented on the merits of a product's packaging, noting that "Fantastic works and has good packaging."

The list of top performing brands by outlet type and specific retailer varied dramatically throughout the survey.

Among conventional discounters, Tide led the top five list followed by Windex, Clorox, Fantastic, and Lysol.

At upscale discounters, Tide was followed by Clorox, Windex, Downey and Cheer.

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Tide	34%	55%	53%	37%
Windex	17	14	23	31
Clorox	24	32	11	9
Fantastic	11	13	12	11
Cheer	8	8	15	18
Lysol	9	12	9	13
Downey	16	11	6	7
Comet	8	15	2	6
Purex	9	11	4	7
Formula 409	3	2	9	15

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

At K mart, Windex was a close second to Tide, separated by fewer than five percentage points. Fantastic finished third at K mart, with just under two in 10 managers mentioning the brand, followed by Lysol in fourth and Murphy's Oil Soap in fifth place.

At Wal-Mart, slightly more than three of 10 store managers named Clorox, good for second place after Tide. It was followed by Purex, Bold laundry detergent and Cheer.

Five out of 10 Zayre store managers named Tide as a top performing brand, followed by Downey fabric softener and Wisk, tied for second place at about 20 percent. Clorox was next with almost two in 10 store managers naming the popular liquid bleach as a top performing brand. Windex window cleaner rounded out the list.

At Target, the No. 2 product on the Top Brands list was Cheer laundry detergent, which tied with Clorox. Both products were mentioned by nearly one-fourth the store managers as among their top performing brands.

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Tide	33%	63%	52%	65%
Windex	28	8	15	18
Clorox	8	35	18	24
Fantastic	18	3	9	15
Cheer	5	10	6	24

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Brand preference in the household cleaners and chemical category showed some definite regional differences, survey results reveal.

Tide led all other brands in each of the four regions this year, unlike 1987. However, Tide's dominance in the West was rivaled by second place Windex.

In the West, Tide was mentioned by fewer than four in 10 store managers and Windex, garnered three in 10 manager mentions. Cheer was a distant third with fewer than two in 10 store managers naming the laundry detergent as a top performer. It was followed closely by Formula 409.

In the Northeast, three in 10 store managers named Tide as a top performer followed by Clorox with two in 10 manager mentions. Wisk laundry detergent was third, with nearly as many manager mentions as Clorox, followed by Windex in fourth and Downey in fifth.

In the South, Tide's strong showing was followed by Clorox in second, with three in 10 mentions. In third place was Comet, followed by Windex and Fantastic.

North Central store managers also gave Tide high marks. Tide was mentioned as a top performer by more than half the store managers surveyed. Windex came in second with two in 10 manager mentions, followed by Cheer, Fantastic and Clorox.

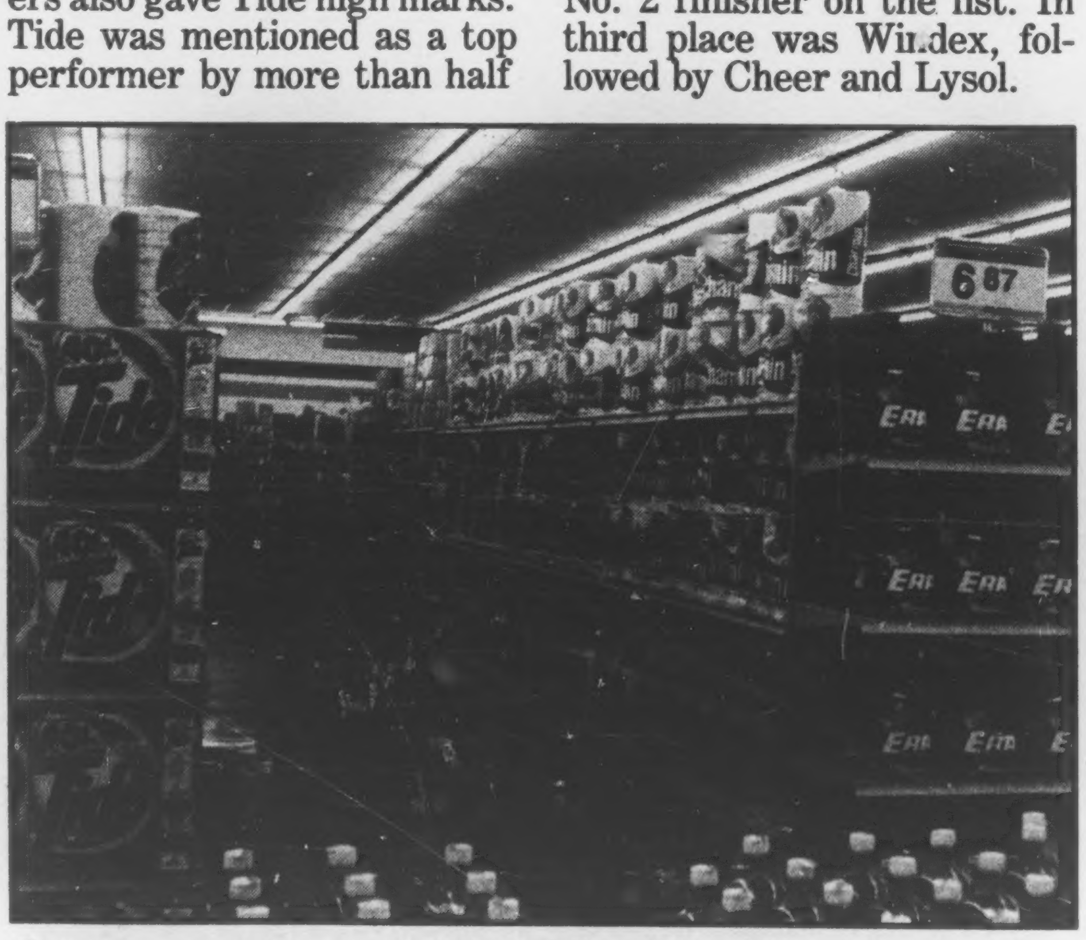
Clorox's fifth place finish in the North Central region was its weakest performance.

The only other fifth place finish for Clorox was in stores of over 100,000 square feet. Among store managers operating these large stores, Clorox was mentioned as a top performing brand by only one in 10 survey respondents.

Store managers operating the large stores gave Tide a very commanding first place finish followed by Windex in second, with about half as many manager mentions. Windex was mentioned as a top performer by more than three of 10 managers surveyed compared to nearly seven of 10 manager mentions for Tide. Downey came in third, followed by Clorox and Cheer.

The list of top performing brands in stores of between 60,000 square feet and 100,000 square feet was headed by Tide with more than four in 10 manager mentions followed by Clorox, with two in 10 manager mentions, Downey, Fantastic and Wisk.

At stores of under 60,000 square feet, 21 percent of the store managers surveyed named Clorox as a top performing brand, making it the No. 2 finisher on the list. In third place was Windex, followed by Cheer and Lysol.



Store managers reported that Tide sells well because it is a nationally advertised brand and is competitively priced. (DSN photo)

Familiar Name Helps Kodak Stay a Top Brand

Nationwide DSN Report

For the fifth consecutive year, Kodak was the overwhelming choice of discount store managers as a best performing brand in *DSN*'s annual Top Brands Survey.

Asked to name their best performing brands in the photo/camera department, four out of five managers surveyed mentioned Kodak, which received more than twice as many mentions as Polaroid, the runner-up.

Fuji Posts Increase

In the past, Kodak has run up mention rates as high as 88 percent. However, all brands except Fuji showed a decrease in the poll this year, with the result that Kodak's margin over the competition increased markedly.

Over 80 percent mentioned Kodak last year, while nearly half mentioned Polaroid. Kodak dipped slightly this year, but Polaroid's rate of mention dropped to about one-third of the respondents.

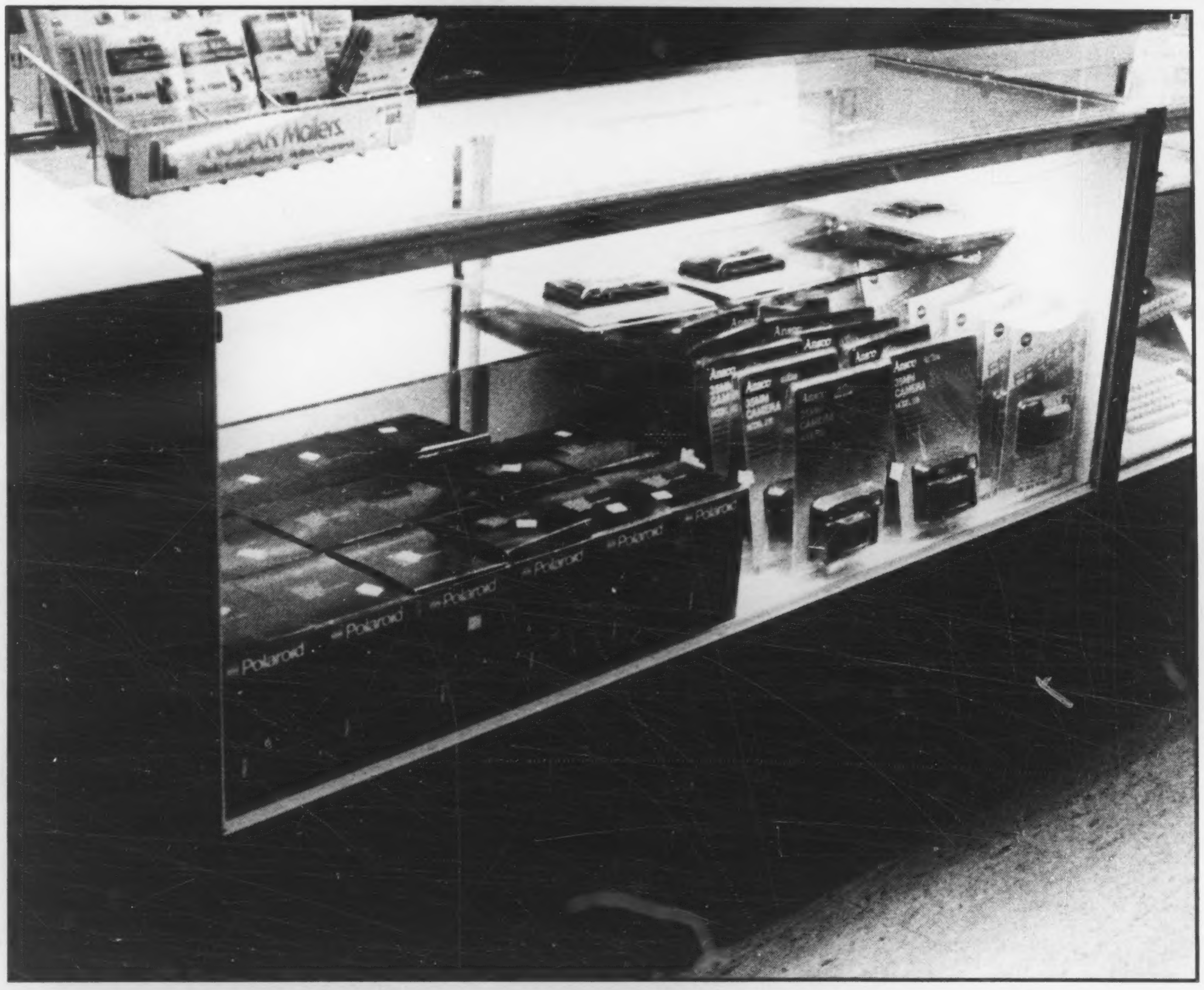
While Kodak rated highly with all store managers, Wal-Mart and Zayre employees seemed to be particularly enthusiastic about the Rochester, N.Y.-based photographic products giant. Over 90 percent of each chain's managers named Kodak. K mart and Target tended to be a bit more restrained in their enthusiasm for the brand.

Upscaler Results Differ

Polaroid's strongest support came from Zayre managers, over three of five of whom named the brand. Other traditional discounters also gave the instant photography leader moderately strong support, but Polaroid's rating, like Kodak's, dropped off with upscale discounters. For instance, only about one in five Target managers mentioned the brand.

Canon and Minolta, which for the fifth straight year finished third and fourth, respectively, in the poll, both saw their shares drop. Canon skidded from a 1987 rating of about one-third of the respondents to under one-fifth this year. Minolta's share dropped about 10 percentage points, to 15 percent of respondents.

Fuji was the only top 10 brand to hold steady from 1987, with about one in 10 store managers naming the brand. Canon owed most of its success to Wal-Mart and Target managers, while Minolta did best with K mart and upscale discounters other than Target.



In photo/camera, Polaroid ranked second on the Top Brands list. About one-third of store managers surveyed named Polaroid as among their best performing brands. (DSN photo)

Top Brands Vary by Type of Outlet

	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	**1988**	**1987**	**1988**	**1987**	**1988**	**1987**
Kodak	80%	84%	81%	84%	75%	83%
Polaroid	34	47	36	50	25	39
Canon	19	29	14	24	41	41
Minolta	15	24	13	22	26	31
Fuji	9	9	10	12	7	4
Scotch/3M	5	5	5	6	6	4
Duracell	3	2	4	3	1	—
Pentax	2	6	2	8	2	3
Nikon	2	8	1	6	6	14
Keystone	2	4	2	4	2	3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Kodak	90%	85%	73%	74%
Polaroid	44	36	32	26
Canon	11	13	27	22
Minolta	16	10	20	18
Fuji	6	5	10	20
Scotch/3M	3	5	4	8
Duracell	8	2	3	2
Pentax	3	—	4	4
Nikon	8	—	2	2
Keystone	4	1	1	2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

K mart managers also rated Fuji highly, while Wal-Mart managers seemed to favor Scotch/3M at about the same rate, which might be partly explained by Wal-Mart's corporate decision to go with American-made products over imports.

Nikon and Pentax, perennial top 10 finishers, barely squeaked onto the list this year, as both showed significant declines in manager mentions, which allowed Duracell to slip into seventh place, the first time the battery manufacturer has ever placed among the top-mentioned brands in the photo/camera department.

Regionally, Kodak did very well in the Northeast and the South; but received comparatively fewer manager mentions in the North Central and West regions. Nine of 10 Northeastern store managers named Kodak. Western managers gave a high percentage of manager mentions to Fuji, which has had more success in California in swaying consumers to its film, while only one in 20 Northeastern managers mentioned the brand.

Polaroid, predictably, did very well in the Northeast, where the company is based, but not as well anywhere else in the country, where its manager mentions dipped to as low as 25 percent.

Canon and Minolta both met with a great deal of success in the North Central region, and both were nearly as strong in the West. However, neither did as well among Southern discount store retailers.

The category, more than most, is one that is dominated by a few major players, with others relegated to supporting roles. As such, the difference between, say, seventh place and 15th place is often negligible. This year was no exception.

The margin between 10th place Keystone and 11th place Vivitar, for instance, was 0.4 percent. The next nine finishers, which included such brands as GE, Sony, Olympus, Eveready, Maxell and Ricoh, were separated by less than 2 percent.

Results compiled by store size tended to be fairly consistent, although there seemed to be a marked preference among smaller stores for the dominant brands, Kodak and Polaroid, while larger stores were disproportionately enthusiastic about upscale brands like Canon, Minolta and Pentax.

Name, Quality Important

Store managers were asked what qualities were most important to them in selecting the top brands in photo. Compared to their responses for all categories, it appears that product performance and brand recognition are essential attributes in the photo area. Low prices, variety within the line, product presentation, and other qualities were important to the managers, but no more so than in any other department.

Four of five managers cited brand recognition, and nearly as many noted that product performance was important. This compares to a slightly below average seven of 10 mentioning advertising as vital, and a little over six of 10 (again, slightly below average) citing low prices.

Kodak A Familiar Brand

Typical comments concerning Kodak were that "it has quality you can trust" and "people are more familiar with Kodak than with any other brand." One manager said that Kodak had "just about cornered the market in photography."

Polaroid supporters said just about the same thing, with one noting that "they have the market on instant cameras."

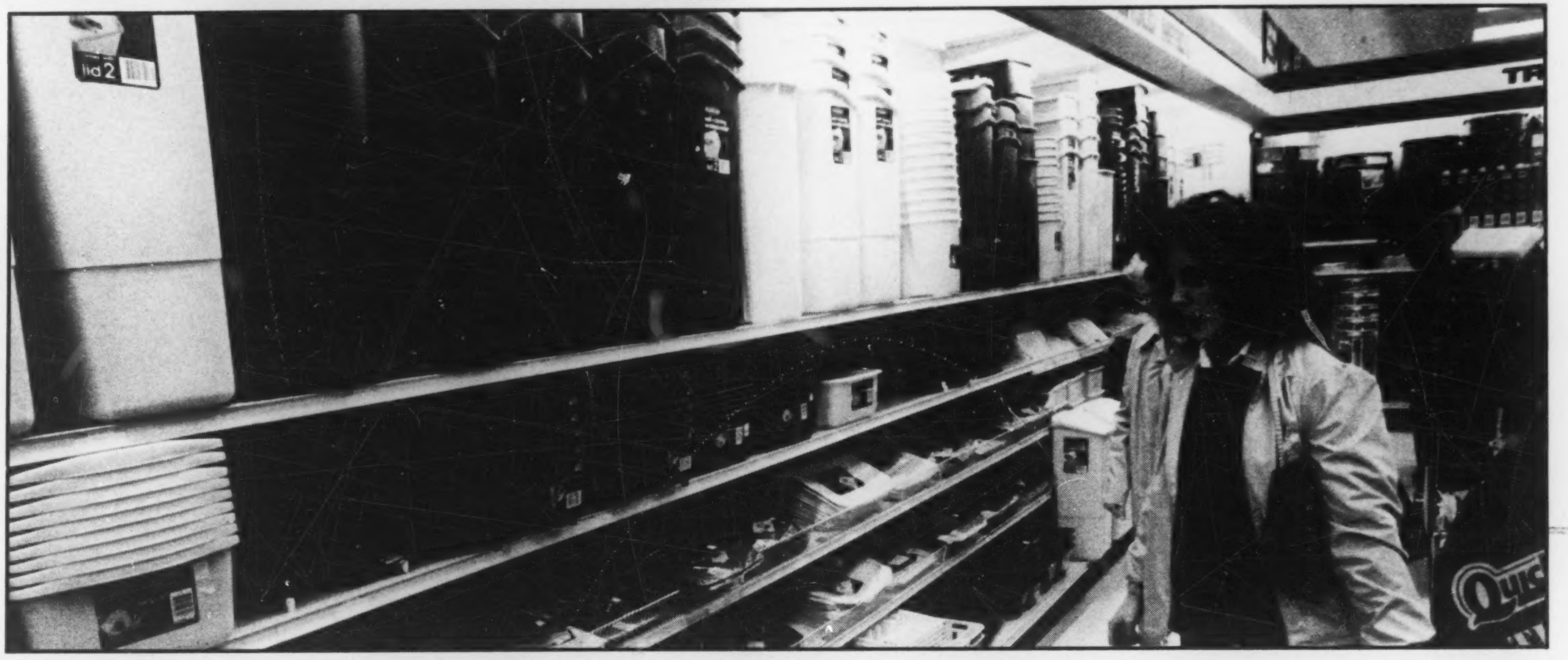
Overall, a clear majority of managers felt that the photo department had not experienced an increase in brands penetration in the past year, although a significant minority reported at least some growth.

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Kodak	81%	95%	91%	79%
Polaroid	36	40	64	25
Canon	16	25	3	50
Minolta	25	13	—	15
Fuji	20	—	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Rubbermaid and Corning Nab Top Positions



Thirty-four percent of store managers named Rubbermaid a best housewares performer. (DSN photo)

Nationwide DSN Report

Rubbermaid and Corning were the two brands most often mentioned by discount store managers as best performers in their housewares departments, according to the 1988 Top Brands Survey.

However, housewares manufacturers suffered from what appears to be a growing ambivalence among store managers toward brands. As with most other product categories examined in the study this year, the number of brands mentioned by each individual store manager dropped, resulting in numerous percentage point decreases. The size of the survey population (304), and the survey questions remained unchanged from previous years.

Rubbermaid has topped the list of housewares brands store managers have named as category leaders since *DSN* started conducting Top Brands Surveys in 1983. This year was no exception. The vendor maintained its place at the top of the list, despite a loss of about 14 percent points of the store manager mentions it had received last year.

Corning Labels Combined

For the first time, Corning could have overtaken Rubbermaid if all of Corning's labels were combined (34 percent Rubbermaid vs. 45 percent for Corning products).

Corelle, Visions and Corning brand names took the second, third and fourth spots, respectively, this year. Increased mentions of these brands thereby pushed last year's third place brand, Black & Decker, from No.4 to No. 5, and knocked last year's fifth place manufacturer, General Electric, off the top 10 list altogether.

The success of Corning products is probably linked to the introduction of its Iris pattern and the growing acceptance of its unrivaled Visions cookware line.

For years, consumers were limited to French White, Cornflower Blue and and a few other Corning patterns. The Iris motif was the first Corning bakeware pattern to appeal strongly to the upscale discount store environment.

Corning, Corelle and Visions each gained most of their mentions from managers at the upscale discount chains like Target. Corelle and Visions lost several percentage points at conventional discount stores like K mart and Wal-Mart.

Corelle was up 12 percentage points at upscale discounters over last year, and up 9 percentage points at conventional chains. While the Corning name lost 13 percentage points of its manager mentions among conventional discounters, it gained a point at upscalers.

Visions too is gathering steam among discount store managers. Being the only glass cookware in the market which is suitable for use in microwave and conventional ovens *and* on rangetop has made it especially desirable at a time when the majority of U.S. households require cookware adaptable to all methods of cooking. (The Association of Home Appliance Manufacturers estimates that roughly 75 percent of U.S. households own a microwave oven.)

The high performance ratings of Visions and Corning bakeware, however, occurred at least partly at the expense of Corning's Pyrex bakeware. Pyrex, No. 10 in last year's Top Brands Survey, plummeted to No. 17 (under 3 percent of total manager mentions) this year.

Store managers who named Rubbermaid and Corelle differed at times on which qualities led to their top performance status. For instance, advertising was much more of a factor among those who named Corelle (19 percent for Rubbermaid vs. 52 percent for Corelle).

Brand recognition appeared to be a more important performance component for Corelle than for Rubbermaid, but by a narrower margin. Fifty-five percent of store managers who named Corelle as a top housewares performer mentioned brand recognition as an essential element in a housewares brand's success; 36 percent of store managers who named Rubbermaid said brand recognition was an important attribute.

Thirty-four percent of store managers who mentioned Rubbermaid cited product performance as key to a brand's success; 21 percent of those who named Corelle named product performance as a key attribute.

Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1988	1987	1988	1987	1988	1987
Rubbermaid	34%	48%	34%	42%	35%	62%
Corelle	22	12	22	13	19	7
Visions	12	10	11	13	18	5
Corning	11	21	8	21	22	21
Black & Decker	10	13	8	11	18	17
Proctor Silex	6	8	7	7	2	11
Ekco	6	5	6	6	6	4
SilverStone	5	9	5	10	7	7
Revere	5	2	4	—	10	6
Regal	4	6	4	5	3	9

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Rubbermaid	14%	38%	46%	24%
Corelle	28	23	24	18
Visions	9	8	18	12
Corning	5	18	12	12
Black & Decker	11	8	9	12

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Seventeen percent of store managers who said Rubbermaid was among their top performing housewares brands said good/low pricing was an important factor compared with 28 percent of those who named Corelle.

Among the top four discount chains, there was a tendency for K mart and Zayre store managers to be in agreement regarding what features are most important, and a fair amount of similarity between Wal-Mart and Target.

Both K mart and Zayre store managers considered advertising (especially manufacturer ads) to be important to product performance; about 40 percent of store managers at both chains mentioned advertising. K mart and Zayre store managers also reported product performance to be important by at least 40 percent of store managers.

At Wal-Mart and Target, advertising and product performance took a back seat to brand recognition. At Wal-Mart, 53 percent of store managers said brand recognition was key; 44 percent of Target managers also mentioned brand recognition.

Rubbermaid was most often the subject of additional store manager commentary. After answering the survey questions, store managers also added that Rubbermaid is a "Universal, No. 1 product," and has "come a long way in the last three years; the products are a lot more appealing." Durability and general product quality were also frequently mentioned.

Nonetheless, the drop in Rubbermaid mentions and the rise in Corning product mentions were especially dramatic among the top four chains: K mart, Wal-Mart, Zayre and Target. Rubbermaid mentions fell by 7 percentage points at K mart; 28 percentage points at Wal-Mart; 18 percentage points at Zayre, and 25 percentage points at Target.

Performance by Ekco, Revere and Regal, which were not among last year's top 10, earned these vendors a place on the 1988 charts.

Additional store manager commentary beyond the survey questions indicated that product quality is considered to be a major factor in Revere's performance.

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Rubbermaid	37%	36%	34%	26%
Corelle	25	22	21	20
Visions	9	15	12	9
Corning	18	12	8	8
Black & Decker	14	8	8	11
Proctor Silex	8	5	5	8
Ekco	8	6	4	7
SilverStone	3	5	9	2
Revere	8	4	4	4
Regal	4	7	2	2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

3 New Names Crack Top 10 CE Brands List

Nationwide DSN Report

Emerson repeated as the most-often mentioned consumer electronics brand among discount store managers, widening its lead over second place General Electric. GoldStar was the big gainer in the group, coming out of nowhere to place third.

Ultra-hot Nintendo, which finished seventh overall, also leaped onto the list for the first time, and turned in an even more impressive third-place showing in the "first mention" category.

For the first time since the study started in 1983, three new brands cracked the top 10. GoldStar, in fact, achieved the highest ranking of any CE brand to make the top 10 list for the first time.

Emerson took over first place from GE last year, after the Connecticut-based giant finished first in each of the two prior years. Emerson's margin of victory last year was a mere fraction of a percentage point, but the gap widened this year as Emerson beat out the competition by at least eight percentage points. However, Emerson's percentage of manager mentions dropped slightly from last year, as did the figures for virtually all other top 10 repeaters.

Emerson basically has Wal-Mart to thank for its impressive showing; three-quarters of Wal-Mart managers named the brand. Zayre managers were also high on the company, with over 50 percent of managers naming Emerson as a top performer.

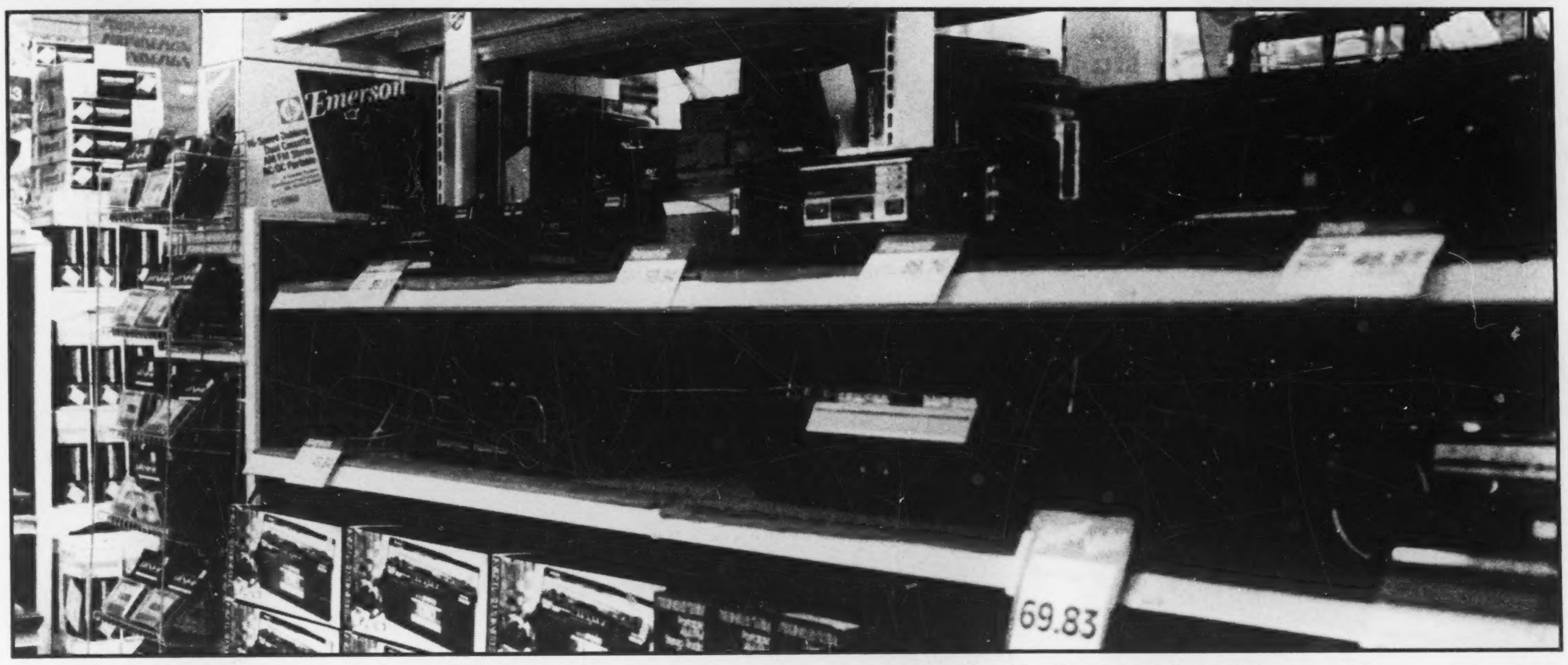
K mart Manager Mentions

K mart managers, on the other hand, more often mentioned GE, Nintendo, GoldStar and RCA, which were mentioned by 20 percent or more of K mart managers. Sharp and Zenith also received a significant percentage of K mart manager mentions.

In addition to Emerson, Zayre managers favored GoldStar (55 percent) and GE, with Randix, Sony, Nintendo and Magnavox also receiving support. Wal-Mart managers, in addition to their support of Emerson, named RCA, Panasonic, Sony, Magnavox, Pioneer and Soundesign.

Upscale discounters were moderately impressed with Emerson, but a greater number of them mentioned Sony. Target managers split about evenly among Emerson, Sony and Magnavox. Overall, upscalers (including Target) tended to divide their mentions among more brands than did conventional discounters, so the top performing brands tended to compile less impressive totals among upscalers.

Wal-Mart, with its selective "Buy American" policy, had far larger holes in its selection, according to the managers. GoldStar, Sharp, Samsung, Toshiba and Casio were not mentioned at all by Wal-Mart managers.



Panasonic and Soundesign were mentioned more often by store managers in the Northeast region of the country. (DSN photo)

In addition to total responses, the poll tabulated first responses of the managers (brand mentioned first when asked, "What are your best performing brands in consumer electronics?"). Answers roughly followed the same pattern as those of total responses. However, there were some marked variations.

In the first response poll, Nintendo finished second, behind Emerson and slightly ahead of GE. One in four K mart managers named Nintendo first as a top performing brand. GoldStar, evidently, owed a lot of its third place finish to second mentions, as it dropped to fourth place in the first mention results. However, nearly one-third of Zayre managers listed it first. Nearly half of Wal-Mart managers named Emerson first. Sanyo was the only other brand to show significantly better performance in the first mention results than in the overall poll.

Trend in Upscale Buying

GE received slightly higher percentages than did Emerson in the Northeast and the West, but Emerson, thanks to Wal-Mart, won handily in the South and North Central regions. Most other brands had very little variation regionally except Panasonic, Sony and Sharp, all of which did significantly better than average in the Northeast. Since all three are suppliers of relatively upper-end products, this might indicate a growing trend toward more upscale audio and video equipment among Northeastern discounters.

Managers were asked why they chose the brands they named first, and their responses varied widely in emphasis. The top three qualities cited, in order, were good advertising, product performance and brand recognition. However, Target and Wal-Mart managers placed far greater emphasis on brand recognition than did other managers. Wal-Mart managers, to no one's surprise, were also more likely to cite low prices as a key attribute, while K mart managers were particularly impressed by a large, complete product line.

Zayre managers were above average in their praise of promotions and specials, as were Target managers, who also valued extensive supplier advertising. Wal-Mart managers were more likely than others to cite manufacturer features like warranties and good stock positions, but that seemed to play a small role in their thinking overall.

Managers who favored Emerson were almost unanimous in citing price and quality as keys to the brand's success. "The prices are lower than Sony and RCA for the same quality," one manager said.

Another manager explained the rise of GoldStar by saying, "The product is fairly priced and has developed consumer trust."

"It has become a national brand through its advertisements," another added.

Nintendo received support due to a variety of qualities, including price, creativity, quality and the most important attribute, its sales record. "They are going out faster than we can get them in," one manager noted.

Panasonic, RCA and Sony all got votes for the effectiveness of their brand names and the quality of their products, while a manager who mentioned Sharp didn't seem to know what made the brand successful. "We just keep buying it and it keeps selling," he said. "We don't do much for it other than put it on sale."

Overall, store managers said that brands had not grown in strength over the past year. When asked, less than 40 percent said that they had seen "more" growth in brands last year; the remainder said that brand share of the market had either remained the same or declined. However, the managers seemed to think that CE brands had grown a bit better than average.

Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1988	1987	1988	1987	1988	1987
Emerson	30%	31%	31%	28%	24%	39%
General Electric	22	31	24	30	13	35
GoldStar	16	12	17	16	11	3
RCA	16	22	16	28	12	7
Panasonic	14	21	13	21	20	22
Sony	12	16	9	14	28	22
Nintendo	12	—	13	—	7	—
Sharp	9	15	8	15	17	14
Magnavox	8	—	7	—	17	—
Soundesign	8	14	10	18	—	4

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Emerson	16%	75%	55%	27%
General Electric	38	10	21	3
GoldStar	20	—	55	6
RCA	25	38	3	18
Panasonic	8	28	—	21

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Emerson	23%	42%	24%	21%
General Electric	26	24	18	24
GoldStar	19	18	15	13
RCA	14	16	15	18
Panasonic	19	10	17	15
Sony	20	10	12	9
Nintendo	9	14	10	13
Sharp	19	5	9	11
Magnavox	9	8	9	7
Soundesign	12	10	6	4

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Newcomers Scramble Personal Care Category

Nationwide DSN Report

Rebates, the need to comply with updated Underwriters Laboratory safety standards, new product launches and the usual price competition created a jumbled roster of name brands cited by discount store managers as their best performers in the personal care electrics category.

The aggregate of these industry influences during 1987 resulted in more mentions of brands like Windmere, Norelco and Remington—which were among the bottom 10 last year—at the expense of top performers like Conair and Clairol.

K mart, Wal-Mart, Zayre and Target store managers were among those who altered their opinions from 1987, based on findings contained in 1988's Top Brands Survey.

New UL safety standards, which vendors were forced to comply with as of October 1987, resulted in low-to-moderate price increases, depending upon how much the manufacturer needed to invest in order to meet the new standards. These price increases contributed to changes in headquarters' buying patterns and consequently, store managers' assessments of the category's top performers.

Conair remained the clear leader across all geographic regions and at upscale and conventional discounters alike, despite collecting 8 percent fewer mentions than last year.

At K mart, 69 percent of the managers mentioned Conair as one of the department's leaders, up from 60 percent last year. Wal-Mart and Zayre store managers, on the other hand, mentioned Conair less frequently than last year. Mentions of the brand at Wal-Mart dropped to under 50 percent from 68 percent and at Zayre it fell to 52 percent from 80 percent. Target store managers mentioned Conair just as often as they did during the 1987 survey.

The most frequently mentioned reason store managers named Conair as a top performer was the success of both the manufacturer's and retailer's advertising efforts. Forty-one percent of store managers mentioned either manufacturer or in-store advertising as a major contributor to its dominance.

The vendor also stimulated the largest number of additional comments of any personal care appliance manufacturer mentioned.

A sample of the verbatim quotes: "The prices are lower than on other brands," and "We carry a wide range of their products. We advertise and promote."

Like Conair, Clairol held its 1987 ranking (No. 2) even though its total mentions dropped to 18 percent from 25 percent last year. The brand lost mentions at both conventional and upscale discount operators, and in each of the four geographic regions. While store managers at K mart, Wal-Mart, Zayre and Target cited Clairol fewer times this year than last, the number of mentions did not fall as dramatically as with Conair.

health & beauty
PERSONAL CARE ELECTRICS
PERSONAL CARE ELECTRICS

Conair got the most mentions from managers as a top brand in personal care appliances. (DSN photo)

Top Brands Vary by Type of Outlet

	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	**1988**	**1987**	**1988**	**1987**	**1988**	**1987**
Conair	48%	56%	47%	57%	54%	53%
Clairol	18	25	15	20	33	38
Windmere	15	6	16	8	14	2
Vidal Sassoon	14	21	10	13	30	41
Norelco	12	7	13	7	10	7
Remington	10	2	10	3	8	1
General Electric	9	25	10	26	5	23
Black & Decker	7	15	8	15	3	14
Sunbeam	3	3	3	3	4	3
Jerri Redding	2	7	3	9	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Managers cited Clairol's high consumer recognition across the country as a key to the brand's success. Fifty-two percent of respondents who named Clairol as a top performing brand said its success was due to brand recognition; 29 percent said it was because of the vendor's advertising, and 30 percent said the quality and performance of the product earned its mention as a top department performer.

The third place spot was captured by Windmere, a name which did not appear among last year's top five.

Top Brands' Performance by Region

Brand	**Northeast**	**South**	**North Central**	**West**
Conair	49%	51%	42%	52%
Clairol	16	18	20	15
Windmere	12	19	15	11
Vidal Sassoon	18	14	11	15
Norelco	20	12	11	9
Remington	17	9	9	7
General Electric	5	9	11	11
Black & Decker	6	10	3	7
Sunbeam	6	5	1	—
Jerri Redding	—	1	4	4

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Windmere's unique product introductions, like its electric lint remover, contributed to its higher profile, especially at Wal-Mart where 15 percent of store managers mentioned the brand as a category leader.

Windmere replaced General Electric, which had held the third place spot last year; store managers, like consumers, are only now realizing that the General Electric brand no longer exists in small electrics.

Black & Decker, which bought the GE small electrics business over two years ago, still trailed behind the GE brand, but by a narrower margin. Last year GE was third and B&D was fifth; this year GE finished seventh and B&D eighth.

Vidal Sassoon held its No. 4 spot despite a drop in mentions among K mart, Wal-Mart and Target managers. The company saw its rate drop 23 percentage points at Target, 2 percentage points at K mart, and 1 percentage point at Wal-Mart. Zayre managers mentioned Vidal Sasson slightly more often than they did last year.

Vidal Sassoon's own advertising campaign was by far the main reason store managers believed the brand name was a top performer. Nearly half of all store managers who named Vidal Sassoon said the manufacturer's ads led to its success. Thirty-five percent said brand recognition was also a factor.

Replacing Black & Decker in the No. 5 position was Norelco, which was not among the top five a year ago. Norelco mentions were substantially higher in the Northeast than in other regions. Conventional discount store managers were slightly more likely to mention the vendor than upscale discount store managers.

How Industry's Top 5 Fare at Chains

Brand	**K mart**	**Wal-Mart**	**Zayre**	**Target**
Conair	69%	48%	52%	47%
Clairol	16	15	18	41
Windmere	2	15	9	6
Vidal Sassoon	2	23	18	29
Norelco	8	10	9	9

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Norelco's advertising was even more than a factor than Vidal Sassoon's. Advertising was mentioned by 77 percent of all store managers; 67 percent attributed to the successful ads to the manufacturer while the other 10 percent said their own advertising efforts were a primary performance factor.

All of the additional comments store managers made about Norelco indicated that its advertising is fundamental to its success. "Name and reputation [are reasons for Norelco's performance]. The company is reliable and it advertises heavily during our gift giving seasons," was the consensus.

Remington, like Windmere and Norelco, appeared to be cutting into Conair's high awareness levels among store managers. Remington, which had not appeared at all on last year's top 10 list of personal care appliances, made its way to the No. 6 position on this year's chart, collecting 10 percent of all discounters' mentions.

Across all brands, warranties and whether or not the appliances were made in the U.S. had little effect on managers. On average, those qualities received less than a 2 percent rating when managers were asked what made them choose a given brand as a top performer.

Overall, Conair, Clairol, Vidal Sassoon, and Black & Decker were more popular with managers of larger stores, while Windmere, Norelco, Remington, GE and others owed most of their mentions to smaller stores. A majority of managers said there was no growth in national brand presence in the personal care department over the past year.

Top Brands
Hard Lines

PART I: STORE MANAGER SURVEY

Pennzoil Races to Top of Automotives Brands

Nationwide DSN Report

As in 1987, motor oils, oil filters and oil additives again dominated discount store automotive departments, copping eight of the top 10 rankings as best-performing brands in *DSN's* 1988 Top Brands Survey.

The real news from this year's top brands survey is that Pennzoil finally edged past Quaker State by the narrow margin of 30 percent to 29 percent to place No. 1 in mentions among the automotive brands. In the past, Pennzoil trailed Quaker State by substantial margins, such as 34 percent to 54 percent in 1987.

The switch mirrors their dramatic shifts in market share position. Over the past two years, Pennzoil forged to the top with almost a 23 percent market share, up from 18 percent, reported recently in a business publication. Quaker State had led two years ago with a 22 percent market share but fell to 18 percent last year, according to the report.

Retailers also like Pennzoil's square bottle that permits more bottles to be stored on a given shelf, compared to Quaker State's round bottle.

Quaker State hit its low point this January, a spokesman acknowledged, while Pennzoil hit its high mark. Since then Quaker State has recovered ground and Pennzoil lost, he said. The NPD survey showed that as of January, Quaker State had a 16.1 percent share and Pennzoil 21.4 percent. But as of July, Quaker State had risen to 19.3 percent, while Pennzoil fell to 20.6 percent, he said.

Other than the reversal of the top two contenders, the survey revealed no dramatic shifts. The two new brands that made the top 10 this year were: Armor All, No. 9, compared to No. 12 last year, and Champion, No 10, which moved up from No. 13.

They squeezed Turtle Wax and AC-Delco out of the 9th and 10th spots.

Armor All apparently gained ground on the strength of its diversification from its primary product, protectant, into the auto wax field, supporting its move with a hefty, $5 million advertising campaign. As of June, Armor had captured a 19.7 percent market share, at the expense of all competitors, including Turtle Wax, which fell to 27.7 percent in the A.C. Nielsen ratings, down from 39.3 percent in June 1987.

Champion faces the market decline of its bread and butter spark plug line because of the slump in eight cylinder engines in favor of four and six cylinder, and longer spark plug wear with electronic ignition. But it countered with aggressive diversification into such products as filters, penetrating oil, and wiper blades, and now tools. Moreover, it licensed its brand name and logo for car batteries.

Fram, Havoline, STP and Castrol retained their rankings as Nos. 3, 4, 7 and 8. Prestone, with its widely-promoted radiator guarantee program, moved up a notch to No. 5, bumping Valvoline down to the No. 6 position.

Top Brands Vary by Type of Outlet

	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	**1988**	**1987**	**1988**	**1987**	**1988**	**1987**
Pennzoil	30%	34%	31%	36%	26%	31%
Quaker State	29	54	31	56	19	50
Fram	22	26	20	24	30	32
Havoline	17	21	20	23	5	13
Prestone	14	12	13	11	24	12
Valvoline	11	17	12	14	9	23
STP	9	11	10	13	3	5
Castrol	8	11	7	9	15	14
Armor All	5	5	5	6	9	4
Champion	5	4	5	6	9	1

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Among differing outlets, Pennzoil fared slightly better with conventional discounters, 31 percent, than with upscale chains, 26 percent. Among individual chains, the distinctions became pronounced.

Pennzoil got the highest percentage of total mentions from Target managers, 47 percent, and its lowest from Zayre, 9 percent, followed closely by Wal-Mart, 10 percent. By comparison, 39 percent of K mart managers cited Pennzoil as their No. 1 brand.

Quaker State was the overwhelming favorite of Zayre managers, 78.8 percent, compared to 30 percent at K mart, 24 percent at Target, and 20 percent at Wal-Mart.

At Wal-Mart, 43 percent of its managers cited Havoline as their top brand, compared to a low of 9 percent of Target managers.

Prestone fared poorly among Wal-Mart managers, with just 5 percent citing it as among their best performing brands. In comparison, it was named by 24 percent of Zayre managers. Prestone scored better with upscale discounters, 24 percent, compared to 13 percent of conventional discount store managers who named it as a top brand.

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Pennzoil	39%	10%	9%	47%
Quaker State	30	20	79	24
Fram	25	30	52	53
Havoline	16	43	12	9
Prestone	8	5	24	9

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Regional contrasts reveal several dramatic variations.

In the West, 46 percent of managers cited Pennzoil as their top brand. But its ranking plunged to 14 percent of managers in the Northeast.

Quaker State's regional standings stood closer, varying from 32 percent among managers in the South to 22 percent of those out West.

Thanks to its high standing with Wal-Mart managers, Havoline did best in the South, 28 percent, but tailed off to 6 percent of Northeast managers.

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Pennzoil	14%	21%	41%	46%
Quaker State	29	32	29	22
Fram	19	16	27	28
Havoline	6	28	12	13
Prestone	23	14	10	15
Valvoline	6	10	16	11
STP	5	14	7	4
Castrol	18	12	1	5
Armor All	4	5	4	11
Champion	8	1	8	6

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Best Price
everyday at makro!
prestone
4.59
makro
WE WILL NOT BE UNDERSOLD!
WILL NOT
UNDERSOLD

Prestone, with its widely promoted radiator guarantee, moved up a notch to fifth place in this year's survey. (DSN photo)

Other major regional variations in top brand rankings include those for Valvoline, 16 percent in the North Central, down to 6 percent in the Northeast. And of the managers in the Northeast, 18 percent cited Castrol as among their best performing brands, compared to 1 percent of those in the North Central region.

As for the why they thought their top brands had succeeded were tops, managers overwhelmingly gave prime credit to advertising, with 44 percent citing that as a factor.

Product performance and brand recognition came in a virtual dead heat for second place, with 26.9 percent of managers citing the one and 27 percent the other.

Price, an important factor in commodities such as oils, came in a close fourth, with 25.7 percent of managers citing low prices as an attribute of success.

In a consistent pattern, advertising was less important than the norm among Wal-Mart managers. Only 33 percent of those surveyed gave top billing to advertising, compared to 48 percent of upscale managers.

Regionally, 51 percent of North Central managers gave cited advertising as the major reason for top brand success, compared to 36 percent of those in the South—Wal-Mart's stronghold.

Regarding product performance, the only signficant variation occurred regionally: 36 percent of managers in the West gave top billing to that factor, compared to 7 percent of those in the West.

Again fitting the pattern, more Wal-Mart managers, 44 percent, gave credit to brand recognition for top brand success than the norm of 27 percent. At Target, 38 percent of managers cited brand recognition as a factor. Regionally, brand recognition was more important to managers in the West, 37 percent, than in the Northeast, 16 percent.

In verbatim comments on top brands, managers said of Pennzoil: "They always owned the market. They are heavily advertised."

Quaker State drew these comments from managers: "They have been in business for years;" "Good quality oil that lasts a long time;" and "National advertising."

A manager cited Prestone for having "Customer awareness, advertising and product recognition." Another emphasized that Prestone is an "American-made product" that offers "brand recognition and quality."

A manager cited Armor All for its "quality products."

Of Fram, a manager noted, "People just prefer the name brand."

Crest, Colgate Extend Dominance in H&BA

Nationwide DSN Report

In the quick-turning consumable health and beauty aids category, discount store managers nationwide cited advertising, name recognition and product performance as the key motivators behind the performance of the cream of top brands.

Leading the pack of top performers once again were toothpaste brands Crest and Colgate, according to the 1988 *DSN* Top Brands Survey of discount store managers across the country.

Mentioned as a top performing H&BA brand by almost half of the managers surveyed, Crest held its top ranking for the third year in a row, gaining percentage 10 points over its 38 percent rate of mention in 1987, one of the few No. 1 brands in any category to actually increase in popularity among store managers.

In second place, also for the third straight year, was Colgate, mentioned by 29 percent of managers surveyed—a return to the mark the brand had in 1986 after slipping 2 percentage points last year.

While Crest was the most often mentioned H&BA brand at all discounters, Colgate gained most of its share at conventional chains, 30 percent of whose managers mentioned the brand. Upscaler Target placed Colgate second, mentioned by only about 18 percent of managers of that chain.

Regionally, the two toothpaste brands performed quite differently around the country. For Crest, 56 percent of the discounters in the North Central region and 53 percent of the managers in the West cited the brand as a top performer. Colgate's greatest following, however, was concentrated in the Northeast, where the toothpaste brand grabbed just under 40 percent of all store manager mentions.

Illustrating a continuing emphasis on hygiene products, Listerine was the third most often mentioned top brand, with 18 percent of mentions, up 2 percentage points from 1987, while Scope was No. 5 with 8 percent. Listerine's increase helped push the H&BA brand up from its No. 4 ranking last year, as it swapped places with Johnson & Johnson.

Like Colgate, Listerine and Scope did poorly at Target, where they received 12 percent and zero percent of manager mentions, respectively. However, the mouthwash product did significantly better at Zayre and K mart. Regionally, Listerine received its greatest number of manager mentions in the West.

After peaking in 1985 with 44 percent of all managers mentioning it as among their best performing brands, J&J continued its top brand descent this year, ranking fourth with 12 percent. This rate of mention was fairly consistent for most discounters, although J&J did somewhat better at K mart.

The remaining top 10 H&BA brands, in order of manager mentions, were Revlon, Clairol, Right Guard, Aqua Net and Lever Brothers. Altogether, discounters named 63 brands to the survey, higher than any other department in the survey.

In a departure from past years, the upper reaches of the Top 10—Crest, Colgate, Listerine and J&J—picked up the majority of the top mentions by discount managers. In the past, brand mentions tended to be spread out among more upper-echelon products.

The success behind the sales of these top brands centered on a few key factors for discounters.

The No. 1 reason, mentioned by 78 percent of store managers, was brand recognition, closely followed by product performance at just under 78 percent, then advertising, 72 percent. Low prices (60 percent) and wide variety (41 percent) also received significant support from managers as attributes of best performing brands in this category.

As a group, conventional discounters like K mart, Wal-Mart and Zayre tended to place less importance on name brands than did upscalers like Target. A little over three-quarters of managers of conventional discounters cited brand recognition as a key attribute; the figure at upscale discounters was a little over 95 percent.

The reverse was true for low prices, with 65 percent of traditional discounters finding price important, compared to 37 percent of upscale store managers.

Individually, however, store managers cited varying key reasons for the top H&BA brands' success.

At the nation's largest discounter, K mart managers veered from the composite totals in several areas. In advertising, 16 percent of K mart cited the chain's own ads as being important compared to 13 of all managers citing that factor. The chain also thought low prices and a wide variety were more important than did the average discounter.

Conversely, K mart managers named product performance and brand recognition less often than the composite total for the industry.

At Wal-Mart, overall brand recognition (mentioned by 89.5 percent) and low prices (84.2 percent) were not only above the norm, but the highest among any individual chain.

Wal-Mart fell below the average on the importance of advertising and promotion—not surprisingly, since the discounter sticks to an everyday low pricing policy.

Target, however, ranked overall advertising at 86 percent—easily surpassing the average. Within advertising, Target felt stronger about the importance of a manufacturers' advertising than the normal discounter, but at the same time rated its own advertising as being less important than the average.

The significance of brand recognition and low prices were also rated higher by Target than most other chains, except Wal-Mart.

However, a lower than average percentage of Target managers viewed product performance, and variety and depth of a brand as important.

Following in Wal-Mart's steps, Zayre also rated advertising's importance below the norm. The chain, however found product performance more important than the average by 5 percentage points, and ranked brand recognition 14 percentage points below the norm.

Top Brands Vary by Type of Outlet

Brand	All Discounters 1988	All Discounters 1987	Conventional Discounters 1988	Conventional Discounters 1987	Upscale Discounters 1988	Upscale Discounters 1987
Crest	48%	38%	48%	35%	44%	44%
Colgate	29	27	30	23	24	35
Listerine	18	16	18	13	18	21
Johnson & Johnson	12	21	12	23	13	19
Scope	8	9	8	7	7	15
Revlon	7	14	6	6	11	35
Clairol	6	11	5	12	13	9
Right Guard	6	2	7	2	2	—
Aqua Net	5	—	5	—	6	—
Lever Brothers	5	—	5	—	7	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Crest	41%	41%	56%	53%
Colgate	39	26	27	30
Listerine	14	18	14	28
Johnson & Johnson	15	13	9	13
Scope	3	8	8	11
Revlon	6	11	5	2
Clairol	4	6	6	9
Right Guard	5	8	4	6
Aqua Net	11	4	6	2
Lever Brothers	4	6	6	4

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Crest	50%	53%	49%	47%
Colgate	31	33	33	18
Listerine	25	23	30	12
Johnson & Johnson	16	13	12	12
Scope	11	8	3	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

HAIR CARE
DENTAL NEEDS
Crest
Crest
Crest

Crest and Colgate maintained their lofty spots in this year's survey of top H&BA brands. (DSN photo)

Wilson, Coleman Top Managers' Brand List

Nationwide DSN Report

Wilson edged out Coleman as the top sporting goods brand in this year's Top Brands Survey. Last year, Coleman unseated Wilson, the 1986 winner.

For the past five years, the two have been vying with each other for the top brands honor. Coleman has won three times against Wilson's two.

In 1986, Wilson was on top, but Coleman forged ahead in 1987, with a score of 44 percent to 39 percent.

This year Wilson came out fractionally ahead, 27.8 percent, against 27.7 percent for Coleman.

Rounding out the top 10 this year were: Spalding, Zebco, Huffy, MacGregor, Garcia, Remington, Daiwa and Igloo.

Remington and Igloo pushed into the top 10 this year to replace Shakespeare and Rawlings as the top performers in the view of discount store managers. Rawlings dropped four places from No. 8 to No. 12, while Shakespeare slipped to No. 13 from No. 7.

Remington and Igloo both made strong showings this year in making the top 10, moving up from 15th and 16th, respectively, last year.

Spalding, Zebco, Huffy and MacGregor retained the same relative rankings as last year.

Wilson Strong at Zayre

Although Wilson was virtually tied with Coleman in the overall ranking, it pulled ahead significantly in its rankings with managers at Zayre, deemed a conventional discounter, gaining 46 percent of manager mentions to Coleman's 18 percent. Among upscale chains, Wilson also led Coleman by a significant margin, 50 percent to 32 percent.

Among other conventional discounters, Coleman beat out Wilson among K mart managers, 33 percent to 27 percent. At Wal-Mart, Coleman did slightly better than Wilson, 25 percent to 23 percent.

Spalding and Huffy also did better at upscale discounters than with conventional chains.

Thirty-two percent of Target managers mentioned Spalding compared to 21 percent at Zayre, 19 percent at K mart and 15 percent at Wal-Mart.

Slightly less than 21 percent of Target managers mentioned Huffy, but the bicycle manufacturer received only 5 percent of manager mentions at Wal-Mart and 6 percent at K mart. Zayre managers, however, were enthusiastic about Huffy, with over 21 percent mentioning the brand.

In comparing 1988 with 1987, Huffy got almost precisely the same ratings, turning in the most consistent year-to-year performance of any of the top 10.

In sharp contrast, Coleman slumped this year, mentioned by 32 percent of the managers of upscale discounters compared to 58 percent in 1987. It sagged in the overall rankings to 27.7 percent of managers from 44 percent last year.

At Wal-Mart, with its national reputation as a strong fishing supplies retailer, nearly half the managers surveyed mentioned Zebco as a top performing brand.

Among upscale discounters, which do not carry guns and ammunition, Remington scored a zero, while gaining 6 percent of manager mentions from conventional discounters Wal-Mart and K mart.

Among marked regional variations in the standings, Wilson did best in the Northeast, with 47 percent of the region's managers, and its worst in the South, 25 percent.

Top Brands Vary by Type of Outlet

Brand	All Discounters 1988	All Discounters 1987	Conventional Discounters 1988	Conventional Discounters 1987	Upscale Discounters 1988	Upscale Discounters 1987
Wilson	28%	35%	23%	29%	50%	49%
Coleman	28	44	27	39	32	58
Spalding	22	28	20	18	33	50
Zebco	20	15	23	16	8	10
Huffy	11	12	8	8	25	24
MacGregor	6	12	7	12	—	12
Garcia	5	7	5	9	5	1
Remington	5	4	6	5	—	—
Daiwa	4	6	4	8	1	3
Igloo	3	3	3	2	6	6

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Wilson	27%	23%	46%	41%
Coleman	33	25	18	38
Spalding	19	15	21	32
Zebco	19	48	3	3
Huffy	6	5	21	21

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Coleman produced its strongest showing in the West, 43 percent, and its weakest in the Northeast, 15 percent.

Remington arms and Garcia fishing tackle also got their highest ratings in the West. Remington garnered mentions from 9 percent of Western managers, trailing off to 3 percent from Northeastern managers. For Garcia, the West came through with 15 percent of all manager mentions, while it garnered no mentions in the Northeast.

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Wilson	47%	25%	26%	22%
Coleman	15	23	31	43
Spalding	28	21	21	22
Zebco	4	24	26	17
Huffy	15	11	12	4
MacGregor	8	6	6	2
Garcia	—	4	3	15
Remington	3	4	6	9
Daiwa	3	5	3	4
Igloo	3	—	7	4

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Zebco's line of fishing tackle scored best in the North Central region, 26 percent of managers, closely followed by the South, 24 percent. Northeastern managers rarely mentioned the brand.

As for their reasons why a brand succeeded in the sporting goods department, most managers cited product performance, 35 percent, while advertising came in second, with 30 percent of managers giving that attribute credit for top brand success. Brand recognition ranked a close third, with 27 percent of all managers saying it was a factor.

Product performance was even more important in the minds of upscale discounters, 41 percent, than in the views of conventional discounter store managers, 34 percent.

And among conventional chains, 39 percent of K mart managers said product performance was important, while only 15 percent of Zayre managers cited it as the reason for a brand's success.

Regionally, product performance ranked first in importance with 41 percent of managers in the West, but only 20 percent of managers in the Northeast.

As expected, advertising was less important than the norm with Wal-Mart managers, 14 percent, and more important among upscale discount managers, 36 percent.

Advertising drew top billing more often from Western managers, 37 percent, than North Central managers, 27 percent.

When comparing a few specific brands, however, variations for advertising as the prime factor ranged from 44 percent for Wilson to 17 percent for Coleman. On the other hand, product performance was more important for Coleman, 43 percent, than for Wilson, 27 percent. Brand recognition was more important for Coleman, with 39 percent of all managers citing that factor, compared to 31 percent for Wilson.

In other standout variations, brand recognition was far more important to Target managers, 63 percent, compared to the overall figure of 27 percent.

Regional variations from the norm for brand recognition ranged from a high of 35 percent of North Central managers to a low of 7 percent of Northeastern managers.

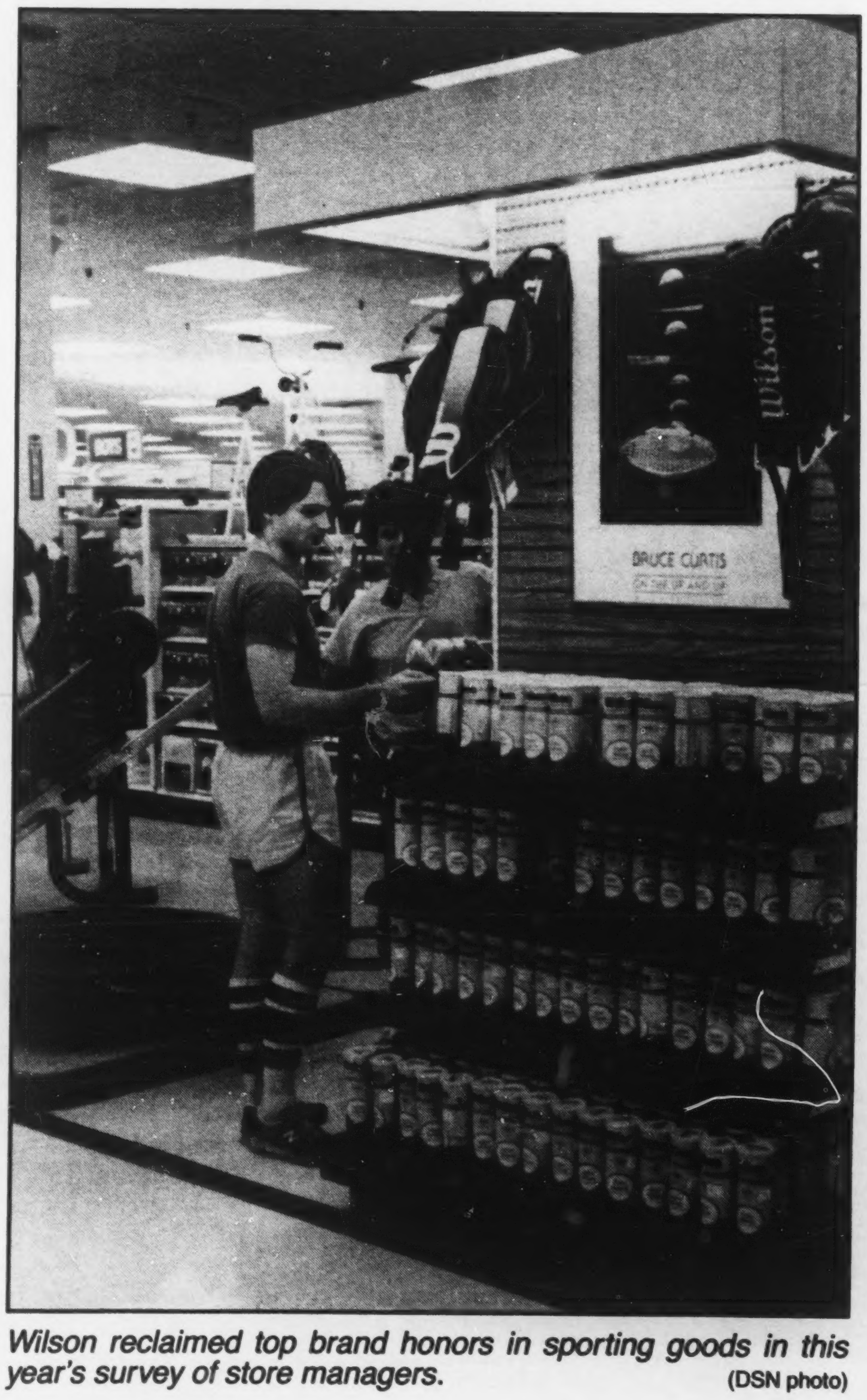
In personal comments on brands, one manager singled out Wilson because: "The name has been around for a long time," and because it manufactures "more reliable equipment."

Managers' reasons for Coleman's success as a top brand included: "Camping is coming up," it is "the leading manufacturer of camping equipment," and Coleman equipment "works well and is reliable."

One manager liked Huffy because, "We have whatever models they are looking for at low prices."

Igloo coolers prompted this comment: "People buy them because of the sale prices. They are large, and they hold a lot."

Regarding Zebco, a manager noted, "it is a good brand name that everyone knows."



Wilson reclaimed top brand honors in sporting goods in this year's survey of store managers. (DSN photo)

Fisher-Price and Mattel Remain Tops in Toys

Top Brands Vary by Type of Outlet

Brand	All Discounters 1988	All Discounters 1987	Conventional Discounters 1988	Conventional Discounters 1987	Upscale Discounters 1988	Upscale Discounters 1987
Fisher-Price	54%	59%	50%	51%	76%	79%
Mattel	30	40	29	40	33	39
Playskool	25	33	24	30	29	41
Milton Bradley	15	12	15	12	14	12
Hasbro	12	14	13	15	10	12
Little Tikes	11	7	11	4	14	14
Coleco	11	19	10	18	18	22
Kenner	8	6	8	7	6	5
Parker Brothers	5	4	4	4	9	3
Huffy	4	16	5	20	2	5

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Nationwide DSN Report

For the fifth consecutive year, Fisher-Price and Mattel were the top two brands in the toy department, based on findings from *DSN's* 1988 Top Brands Survey.

For the third year in a row, Playskool came in third, according to store managers who were asked to name their best performing brands in the annual survey.

After that, however, the lineup this year underwent a fast and furious shuffle.

Milton Bradley and Coleco swapped No. 4 and No. 7 spots. Coleco, which filed for Chapter 11 protection in July, slipped in concert with declining sales of its one-time star performer, the Cabbage Patch doll.

Following the survey, Coleco reported a stunning second quarter loss of $193.3 million, on meager sales of $15.4 million. Coleco primarily blamed the sales slide from $146 million in the same quarter of 1987 on its cash squeeze that prevented it from shipping toys from the Far East.

Coleco now has slipped from No. 3 in 1984 and '85, to No. 4 in '86 and '87. Its No. 7 standing in 1988 put it a notch below Little Tikes, the Rubbermaid division which jumped to No. 6 from No. 10 in 1987.

Huffy, suffering from an industry-wide slump in bicycle sales, did another flip-flop, plunging to No. 10 on the chart from No. 5. In 1987,.it had risen to No. 5 from No. 8 the year before on the top brands survey. As an indicator of bicycle problems, Huffy sold its money-losing Raleigh bicycle brand last month to a European concern.

Hasbro replaced Huffy in the No. 5 spot for 1988. In 1987, Hasbro's Pogo Ball was so popular that discount store managers considered it a "top brand," and put it in the No. 8 slot. This year, four managers still confused Pogo Ball with a "brand," but dropped it to No. 16 in the standings.

Kenner rose to No. 8 this year from No. 11 in 1987. Another new name on the Top 10 this year is Kenner's Parker Brothers subsidiary, which took the No. 9 spot, up from No. 15 in 1987.

Tonka, parent of both Kenner and Parker, failed to make the top 10 but did gain in the standings to No. 11 from No. 15 in 1987.

A handful of managers surveyed still regard Worlds of Wonder, another toymaker in Chapter 11, as among their top brands, but it slipped to No. 14, from No. 12 last year.

Among variations by outlet, industry leader Fisher-Price scored considerably better among upscale managers, 76 percent, than among conventional store managers, 50 percent. Nonetheless, Fisher-Price did the best at Zayre, where 88 percent of its managers mentioned it most often as their top brand.

Playskool, also specializing in educational toys, also did better with Zayre managers, 30 percent, than among K mart managers, 20 percent, and Wal-Mart, 22 percent.

Mattel got a standout rating of 41 percent of Target managers mentioning it as among their top brands, but only 15 percent of Wal-Mart managers put Mattel on their list of top performers.

Milton Bradley's standing also varied considerably among chains, ranging from a high of 25 percent with K mart managers to 9 percent with Target people and a low of 8 percent of Wal-Mart managers surveyed.

Little Tikes stood out at K mart, 17 percent, but garnered only 3 percent at Zayre.

Kenner didn't even exist as a top brand as far as Wal-Mart managers were concerned, and only 3 percent of them considered Parker Brothers a top brand, compared to 13 percent of upscale managers other than Target.

Target managers did not mention either Parker Brothers or Huffy as among their top performing brands, while 10 percent of Wal-Mart managers most often mentioned Huffy as a top brand.

Among regional variations, a number of brands did considerably better in the Northeast than the West and vice versa.

Fisher-Price, for example, came out the best among managers in the Northeast, 71 percent, trailing off to 39 percent of Western managers.

Milton Bradley also fit into that pattern of regional variation, garnering mentions among 28 percent of Northeastern managers but only 11 percent of those in the West.

Coleco, too, fared better in the Northeast, 13 percent, than in the West, 9 percent.

In a reversal of that pattern, Mattel was mentioned by 39 percent of managers in the West, dipping to 19 percent among Northeastern managers.

Western managers also thought more highly of Kenner than did those in the Northeast, 15 percent, against 3 percent.

In West-North Central comparisons, 18 percent of managers considered Hasbro among their top brands, compared to only 8 percent of North Central managers.

Conversely, Little Tikes scored the best with North Central managers, 17 percent, and the worst in the West, 7 percent.

As for reasons why their top brands performed so well, most managers, 32.1 percent, gave first credit to advertising, while a close 31.6 percent cited brand recognition as the prime factor for success.

Product performance came in third, with 26 percent of managers citing that attribute as a reason for a top brand's success in toys.

As usual, advertising was less important to Wal-Mart managers, with only 22 percent citing it as grounds for success. In comparison, 33 percent of Target managers deemed it most important.

Regionally, 44 percent of Northeast managers gave the most credit to advertising for their top brands' successes, while only 27 percent of managers in the South did so.

Brand recognition got more credit for top brand success among upscale discounters, 45 percent, than the norm, 31.6 percent of all managers, and also among Wal-Mart managers, 39 percent, and Zayre managers, 35 percent.

Brand recognition was significantly less important at K mart, with only 14 percent citing it as a factor.

In verbatim comments, store managers offered explanations for the success of the top brands.

Fisher-Price "is synonymous with childrens' toys," said one. "Great assortment of the toys. They don't come apart," said another.

Regarding Mattel, a manager said, "The money they spend on television advertisement," "name brand, quality products," and "Dependable, the name says quality," were sample comments.

As for Playskool, managers liked its "innovation," and its policy of doing "a lot of national advertising."

Of Milton Bradley, "they have a big variety of games for all ages," said one manager.

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Fisher-Price	38%	53%	88%	59%
Mattel	27	15	30	41
Playskool	20	23	30	27
Milton Bradley	25	8	15	9
Hasbro	14	8	9	9

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Fisher-Price	71%	51%	58%	39%
Mattel	19	31	27	39
Playskool	30	20	29	21
Milton Bradley	28	13	15	11
Hasbro	14	12	8	18
Little Tikes	14	8	17	7
Coleco	13	12	10	9
Kenner	3	8	6	15
Parker Brothers	3	6	3	7
Huffy	5	5	5	2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

DISCOUNTS
MATTEL
SALE!

For the fifth consecutive year, Fisher-Price and Mattel finished Nos. 1 and 2 in toys. (DSN photo)

Managers Attribute Top Stationery Brands to Consumer Recognition

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Mead	33%	58%	33%	62%
Bic	28	23	27	29
Papermate	6	15	18	9
Crayola	11	18	24	6
American Greetings	—	—	9	3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Mead	28%	43%	43%	41%
Bic	46	33	25	24
Papermate	16	15	11	15
Crayola	9	16	6	13
American Greetings	8	4	5	—
Parker	3	5	2	2
Stuart Hall	3	5	1	4
Scripto	6	3	2	2
Hirlitz	—	5	3	—
Scotch	4	—	1	7

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Nationwide DSN Report

While the top 10 stationery brands in this year's Top Brands Survey remained basically unchanged since last year, performance of specific brands in the Northeast, South, North Central and West regions of the country, like the top chains, underwent significant changes.

Mead, Crayola and Hirlitz were the only three stationery brands which were named as department leaders by a larger percentage of store managers this year than in 1987.

Scotch maintained its 2 percent of manager mentions, while the other six vendors that comprise the top 10 list lost anywhere from 1 percent to 8 percent of manager mentions, due primarily to a drop in brand mentions which crossed most merchandise categories this year.

Changes in the Top 10

Specific changes in the overall top 10 list included Crayola taking the No. 4 spot from American Greetings, and Stuart Hall beating Scripto for seventh place.

The gap between Mead and Bic widened to 10 percentage points, reversing the trend toward a narrowing gap which had been developing for the past few years. In fact, last year the two brands were only two percentage points away from being tied for the No. 1 spot. Bic and Papermate, on the other hand, maintained the 17 percentage point spread from last year.

Mead and Bic were the only two stationery brand names which generated additional commentary by the store managers surveyed. In anonymous remarks, the store managers noted that Bic and Mead have one important feature in common.

Both "sell themselves" due to high brand recognition among consumers, especially when it comes to Bic. "They are the first name in pens," "Everybody associates it [the Bic name] with pens," "The company has been around for a long time," were among the verbatim comments.

Mead's prices were mentioned frequently, as was advertising and the fact that it is occasionally the only brand of paper sold at a store.

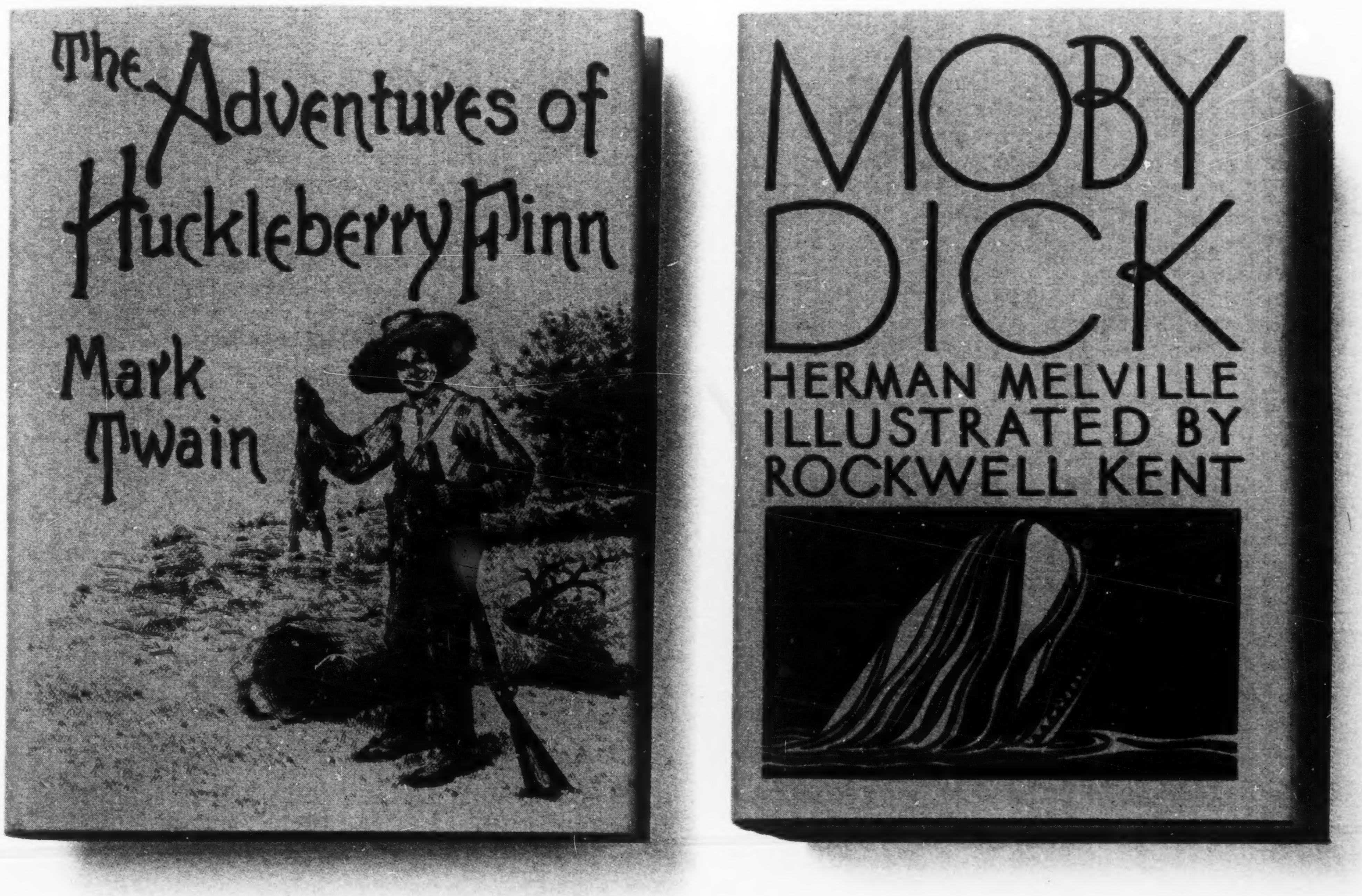
Mead also owes its dominance on this year's chart to gains made in the West. In each of the other three regions of the country, Mead lost store manager mentions, compared to last year. Westerners nearly doubled their vote for Mead, rising from 22 percent a year ago to 41 percent.

While Bic lost mentions in the other three regions, more Southern store managers mentioned the writing instrument leader than last year, especially significant for a year during which most brands lost overall mentions.

The South and West were responsible for boosting Crayola up to the No. 4 spot for the first time since *DSN* started publishing the Top Brands report in 1983.

Upscale discount store managers as a whole mentioned the top 10 brands less

(Continued on page 137)



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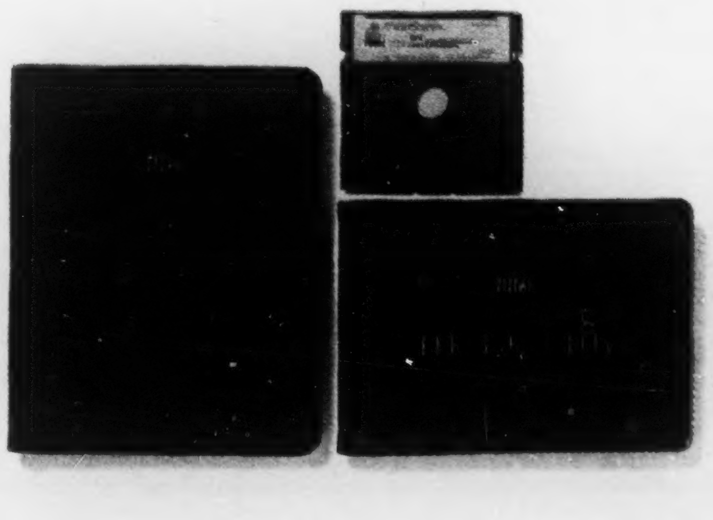


Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1988	1987	1988	1987	1988	1987
Mead	41%	40%	41%	35%	37%	50%
Bic	31	38	30	35	35	44
Papermate	14	21	13	19	19	24
Crayola	11	10	12	11	6	9
American Greetings	4	12	4	10	6	17
Parker	4	9	4	9	3	10
Stuart Hall	3	5	3	3	2	7
Scripto	3	5	3	3	1	10
Hirlitz	3	1	3	1	—	—
Scotch	2	2	2	2	5	1

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

High Brand Recognition Key to Stationery Sales

(Continued from page 136)

often than in 1986. Conventional discount store managers increased their mentions of Crayola, and mentioned Stuart Hall, Scripto and Scotch just as often as they did last year.

Although there was no relative difference between Bic and Papermate overall, among four leading chains, the picture drawn by these writing instrument manufacturers was not as serene.

Bic was mentioned as a best performing brand by 7 percent fewer K mart managers this year and Papermate lost 16 percent at the No. 1 discounter. Consequently, Papermate slipped below fourth-ranked Crayola at K mart. The spread between Bic and Papermate widened at Wal-Mart and Target as well. Only at Zayre did the percentage of managers mentioning the brands become closer between the two.

The rising importance of private label stationery explains part of the drop in mentions at K mart and, to a lesser extent, at Zayre.

Twice as many K mart store managers, 20 percent, mentioned the chain's private label brand as last year; 9 percent of Zayre managers mentioned its private label stationery line this year as a best performing brand compared to 6 percent last year.

No Stationery Department

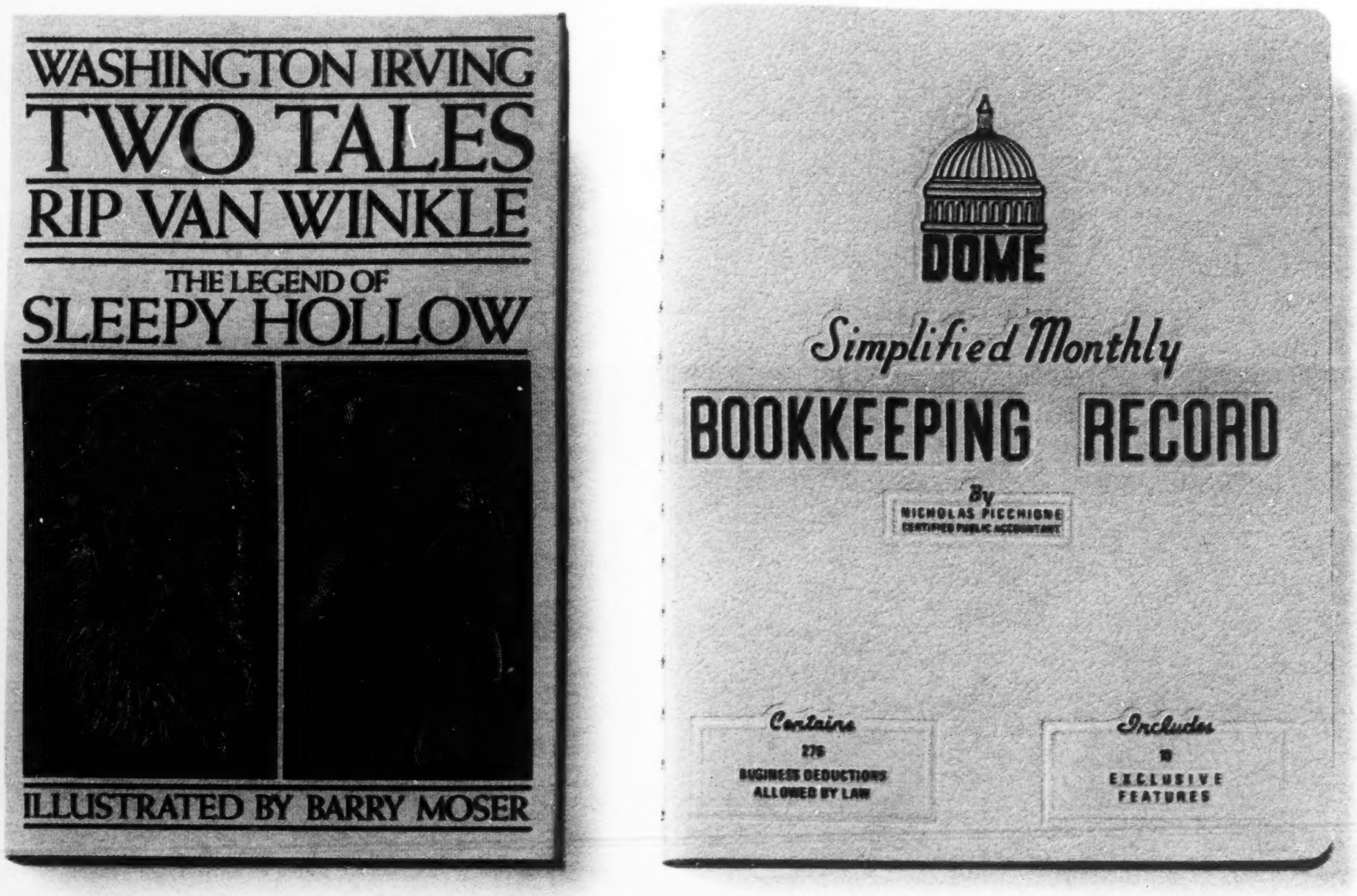
Another factor affecting the mentions of the top 10 stationery vendors in this year's report was an increase in the number of retailers who said they do not operate a stationery department. Last year, only 1 percent of the total survey population said their store does not sell stationery. This year that number jumped to 9 percent. The largest concentrations of store managers who said they do not operate stationery departments were in the North Central (13 percent) and West (10 percent.)

Additionally, a larger percentage of brands were below 1 percent (not included on the top 10 chart) and included in the "other" brand grouping. Twenty-two percent named a small or perhaps regional brand as a best performer, compared with 20 percent last year. Among upscale discounters, 33 percent mentioned a vendor that fell into the "other" category as a leading performer in their stationery department.

Zayre store managers considered manufacturer advertising as being among the most important elements that made a given stationery brand a department leader. Thirty-six percent of all Zayre managers surveyed mentioned advertising as a key performance factor, compared to 25 percent or below at K mart, Wal-Mart and Target.

Product performance was most important to K mart store managers, cited by 31 percent of those surveyed. No more than 25 percent of store managers from the other three chains named product performance as a factor.

Among brands which were below the top 10 ranking but which gained increased mentions between last year and this year were: Sangamon, which was No. 17 last year but just missed this year's top 10 list by 0.2 percent; Cross, which rose from number No. 22 last year to No. 14 this year; and Empire, up from No. 24 last year to 15th this year.



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Stanley, B&D Maintain Brands Domination

Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1988	1987	1988	1987	1988	1987
Stanley	56%	64%	55%	67%	61%	56%
Black & Decker	54	66	54	65	53	68
Lucite	9	4	10	5	7	4
Glidden	6	9	4	7	13	16
Dutch Boy	4	—	3	—	9	—
General Electric	3	11	2	7	6	21
Royal	2	1	2	2	—	—
Red Devil	2	1	2	1	2	—
Olympic Paint	1	1	1	—	3	4
Vermont American	1	—	2	—	—	—
Master Lock	1	1	1	1	—	—
Skil	1	3	1	4	—	—
Genie	1	2	—	—	7	7

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Nationwide DSN Report

For the fifth consecutive year, Stanley and Black & Decker were named by the largest number of store managers as their top performing brands in the hardware category, according to *DSN*'s 1988 Top Brands Survey.

This year, however, Stanley took the top spot, edging out Black & Decker, due to an improved position at upscale discounters. This was also the first time since 1984 that Stanley beat Black & Decker for the No. 1 spot on the Top Brands Survey list. The margin separating the two hardware manufacturers, though, was a slim two percentage points.

Both Stanley and Black & Decker were mentioned by more than 50 percent of the store managers when they were asked to name their top performing brands in the hardware department.

Although Stanley and Black & Decker continue to have a stronghold on the top two spots on the survey, the number of store managers naming the two brands as top performers has waned over the years, peaking in 1986 when each manufacturer was named by more than seven out of 10 managers, compared to five of 10 this year.

This year also marked the second year in a row that Stanley edged out Black & Decker among conventional discount department stores, but the margin was less than 2 percentage points.

Store managers surveyed evaluated Stanley as a quality product with a national name and a loyal following. Among the comments were the following: "They have a reputation for durability and making products in convenient sizes that last a long time;" and, "Stanley is a name [that] has been around for years and their tools last for five or more years."

Black & Decker is also seen as a quality product with name recognition. One store manager said Black & Decker has "high quality merchandise with reasonable warranties."

Among conventional discount department stores, Stanley maintained its edge over Black & Decker, particularly at K mart. Stanley was mentioned as a top performing brand by nearly 70 percent of K mart store managers, compared to almost six of 10 who named Black & Decker.

Black & Decker was mentioned more often as the top performing hardware brand by store managers at Wal-Mart and Zayre, but by very slim margins.

Upscale discounters also gave the top spot to Stanley, but by larger margins. Stanley was named by six out of 10 upscalers, compared to Black & Decker's 53 percent rating.

More Target store managers, however, said Black & Decker is a best performing hardware brand in their stores, by about 3 percentage points over Stanley.

The third most often named hardware brand in the survey was Lucite, up from No. 6 in the 1987 survey. Glidden, another popular paint label, held on to fourth place followed by Dutch Boy in fifth, and General Electric in sixth.

However, store managers reported that their company's own private labels were top performers in the hardware department, outperforming such top brands as Dutch Boy and General Electric.

In the previous year's survey, General Electric placed third among store managers as a top performing hardware label, followed by Glidden, Rubbermaid, Lucite, Hirsh and Skil.

General Electric's sixth position on the current survey is the company's poorest standing since the survey began in 1984. At that time, General Electric ranked third in the survey.

Rounding out the top 10 this year were Royal, Red Devil, Olympic Paint and Vermont American.

Rubbermaid, which last year placed fifth in the top 10, fell to 16th place this year.

Other top performing brands mentioned by the store managers include Master Lock, Skil, Genie, Great Neck, Hirsh, Quickset, Homelite, Yale, and Bull Dog.

After Stanley and Black & Decker, the top performing brands varied slightly at the retail level.

For example, conventional discounters placed Lucite third, but upscalers preferred Glidden.

Performance at individual retailers also varied widely, probably because few of the major discounters carry the same paint brands.

At K mart, Glidden came in third with more than 9 percent of the store managers naming it, followed by Dutch Boy, which was tied with the discount giant's private label products. Both labels were mentioned by more than 6 percent of the K mart managers as top performing brands in the hardware department.

Thirteen percent of Wal-Mart store managers cited Lucite as a top performing brand, giving the paint label the third place spot on the list. General Electric finished in fourth place at Wal-Mart, but Wal-Mart's own private labels received more mentions than GE, according to the survey.

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Stanley	67%	63%	64%	56%
Black & Decker	58	65	67	59
Lucite	—	13	30	—
Glidden	9	—	—	29
Dutch Boy	6	—	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

JIG SAW
¾ in. DRILL
¾ in. CORDLESS DRILL

Black & Decker continues to be recognized by store managers as among their best performing hardware brands. (DSN photo)

About 30 percent of Zayre managers named Lucite as a top performing brand in the hardware department, the best finish for the paint manufacturer among conventional discount store retailers. General Electric took fourth place, and Hirsh, the storage products manufacturer, finished fifth.

Among upscale discounters, Glidden finished in third place (13 percent), followed by Dutch Boy with 9 percent of the manager mentions, and Lucite and Genie tied for fifth position with 7 percent.

The 1988 Top Brands Survey also revealed various brand performance differences by region of the country and store size.

Store managers in the four regions split their loyalty between the two top hardware manufactures as well as among the top five.

Both Northeastern and Southern store managers mentioned Black & Decker more often as top performing brands than they did Stanley. The reverse was true in the North Central region and the West, but with more commanding leads for Stanley.

Lucite finished in third place in the Northeast and the South, but Glidden took that spot in the North Central area and Dutch Boy came in third in the West.

In terms of store size, the ranking of the top hardware brands changed again.

Stanley received its strongest showing as a top performing brand at large stores like Target. In stores of more than 100,000 square feet, Stanley was mentioned by six of 10 managers as a top performing brand, compared to fewer than five of 10 manager mentions for Black & Decker.

The gap closes as the stores get smaller. Among managers of stores between 60,000 square feet and 100,000 square feet, Stanley's lead shrank to less than 5 percentage points.

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Stanley	54%	54%	61%	54%
Black & Decker	56	57	55	41
Lucite	21	11	7	—
Glidden	3	5	8	4
Dutch Boy	5	5	1	6
General Electric	5	3	3	2
Royal	—	4	—	2
Red Devil	4	1	—	4
Olympic Paint	3	—	3	3
Vermont Amer.	—	1	—	4
Master Lock	—	1	1	2
Skil	—	—	3	2
Genie	3	—	3	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Hershey's, Snickers, M&M Grab Top Billing

Nationwide DSN Report

Hershey's unseated Frito-Lay as the the No. 1 label on *DSN*'s Top Brands Survey in the food, candy and snacks category. Frito-Lay, which held a small lead over Hershey's in the 1987 survey, fell to sixth place in 1988.

Despite Hershey's advance, it was named as a top performing brand by fewer store managers in the current survey than last year.

Slightly more than two of 10 discount store managers named the popular chocolate products brand as a best performer, barely edging out Snickers, which was No. 2.

M&M finished third, followed by Planters and Brach's in fourth and fifth, respectively. Rounding out the top 10 were Frito-Lay, Mars, Sather, Milky Way and Nabisco food products.

For the M&M/Mars company, the 1988 Top Brands Survey again saw three of its products, M&M, Mars and Snickers, on the top 10 list of best performing brands. Again, the company's brands taken together totaled the greatest number of mentions of all suppliers in the category. However, mirroring the trend in other categories in this year's survey, M&M/Mars brands received fewer mentions than a year ago.

Despite Hershey's hold on the No. 1 spot on the food, candy and snack list, it did not dominate the survey's results.

Top Brands Varied

In fact, the top five brands in this category varied considerably by chain type, specific retailer, region of the country and store size.

In addition to Hershey's and Snickers, other labels receiving first place positions in the surveyed category included Sather, Planters, M&M, and Frito-Lay.

Among conventional discounters, Hershey's was the most often named brand, barely edging out Brach's (by tenths of a percentage point), Frito-Lay and Snickers. The top four brands were separated by just 1 percentage point. M&M, the fifth place finisher, lagged by just 3 percentage points.

The only conventional discounter to name Hershey's most often as its top performing brand was Zayre.

Four of 10 Zayre store managers named Hershey's a top performer, followed by Snickers and M&M, which were tied for second place with 21 percent of the mentions.

Frito-Lay was in fourth place with nearly two in 10 Zayre store managers naming the brand as a top performing brand in the category.

At K mart, the most often named brand was Sather. At Wal-Mart, most store managers said Frito-Lay—last year's No. 1 brand on the overall Top Brands list—was among their best performers.

More than four of 10 Wal-Mart store managers said Frito-Lay was their best performing brand, followed by Little Debbie, with three in 10 mentioning the snack cake brand. Brach's was third with nearly three in 10 manager mentions, followed by Ocean Spray and Nabisco.

K mart store managers gave their support to Sather as a top performer, with three in 10 mentioning the candy brand in the survey. Hershey's was second with almost three in 10 manager mentions and Snickers with one-fourth the managers naming the brand as a top performer.

Survey results among upscale discounters, and Target in particular, varied even more dramatically.

Upscale discounters gave the lead position to Planters, as did Target. Three of 10 upscale discount store managers and four of 10 Target store managers mentioned Planters as a top performing brand.

The second most often mentioned brand on the upscalers list was M&M, followed by Snickers and Hershey's.

At Target, M&M and Frito-Lay tied for second, according to responses from store managers, followed by Mars, Snickers and Hershey's all tied for fourth.

Planters' clear first place finish at Target was double the response rate for M&M and Frito-Lay, which received mentions from two in 10 Target store managers.

Survey results in the country's four regions also varied.

More than three in 10 Northeastern discount store managers named M&M as a top performer.

In this region, M&M was followed closely by Hershey's, with three in 10 manager mentions. Planters, the third place finisher, was mentioned as a top performing brand by one-fourth of the surveyed store managers in the Northeast. Nestle's fifth place finish in the Northeast was its best showing in the survey.

In the South, Hershey's and Frito-Lay tied for the top spot with 23 percent of the store managers naming the popular food products as top performers.

Snickers was the most often mentioned top performing brand in the North Central region. About one-quarter of store managers in this region named the popular candy bar, which was followed by Brach's, Planters, M&M and Frito-Lay.

Western-based discounters gave the top spot to M&M and Snickers, with each candy product named by three out of 10 managers. Hershey's came in third with more than two in 10 store managers mentioning the label.

Broken out by store size, Snickers bars took the No. 1 position among managers running stores of over 100,000 square feet and in stores of under 60,000 square feet.

Discount store managers operating units of between 60,000 square feet and 100,000 square feet named Hershey's as among its the top performing brand most often, three of 10 of them naming the brand.

Among store managers of the mid-size units, Brach's candies received nearly as many manager mentions as Hershey's as a top performer. Brach's was followed by Planters, M&M and Mars.

After Snickers, which received mentions from nearly three in 10 managers operating units of over 100,000 square feet, came M&M, followed by Planters, Hershey's and Sather.

Frito-Lay came in second among store managers operating units of 60,000 square feet to 100,000 square feet, followed by Hershey's, M&M and Brach's.

Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1988	1987	1988	1987	1988	1987
Hershey's	22%	30%	21%	28%	28%	37%
Snickers	21	16	20	18	28	11
M&M	20	24	18	25	30	21
Planters	20	27	17	23	31	38
Brach's	19	29	21	30	11	27
Frito-Lay	18	35	20	31	8	42
Mars	13	16	13	11	14	27
Sather	13	13	15	19	—	—
Milky Way	7	3	6	3	14	3
Nabisco	6	10	6	11	3	9

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Zayre	Target
Hershey's	27%	3%	39%	15%
Snickers	25	5	21	15
M&M	17	3	21	21
Planters	23	8	15	41
Brach's	6	28	3	6

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Hershey's	29%	23%	15%	26%
Snickers	7	18	26	31
M&M	32	12	17	31
Planters	26	19	22	11
Brach's	14	19	25	13
Frito-Lay	15	23	16	15
Mars	12	15	10	18
Sather	6	10	14	20
Milky Way	9	4	5	15
Nabisco	4	9	5	2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

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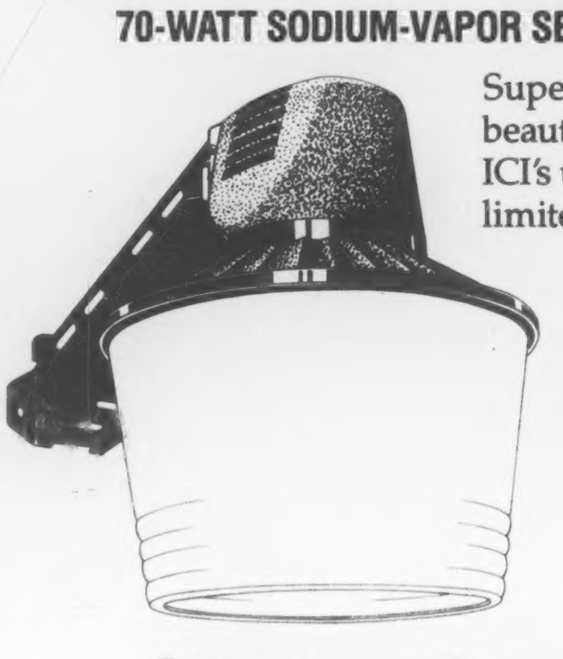

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Ames Unveils Plan to Rebuild Zayre After $800M Acquisition

(Continued from page 1)

alysts meeting last month.

There is evidence that this is more than just wishful thinking. First, there is Hollis himself. In a relatively short reign as president and chief executive officer, he has not only overcome a major inventory shrinkage crisis, but simultaneously modernized the company's merchandising philosophy, redesigned and redirected Ames and Murphy stores, launched three new retail concepts, and, perhaps most important, installed a management team that has performed enviably.

"That may be Hollis' most important accomplishment," replied Jack Siebald, vice president of Salomon Bros., and a longtime follower of both Ames and Zayre. "His upper management team is impressive, and the lower ranks seem to be equally good.

"Certainly there's risk involved here," said Siebald, "but if the acquisition works out, it won't just be a home run, it'll be a grand slam."

That "grand slam" will include:

- Becoming the third-largest discount chain in the world;
- The acquisition of at least 300 prime locations at bargain basement prices;
- The addition of some of the industry's most experienced management;
- The potential for increased profitability with a move into metro markets.

For the short-term, Ames is quickly taking steps to rebuild Zayre. According to Hollis, a store design firm (reportedly Columbus, Ohio-based Retail Planning Associates) will be hired to design a new prototype for Zayre. Between 30 and 70 Zayre stores will be closed or sold, sources said.

Ames will also take a hard look at Zayre's pricing, and will probably buttress prices on certain staples.

"We're going to return the gross margin to the levels of other major discounters who also employ promotion as part of their overall corporate strategy, like K mart and Target," Hollis said. That figure would be in the 27 percent to 28 percent range, up from Zayre's present 24 percent to 25 percent range.

Ames is also in a position to upgrade Zayre's poor-performing apparel departments.

"It seems that apparel was a very low priority with some of previous management . . . We think we can turn that around very quickly," an Ames spokeswoman said. Hollis added the company will also look at other departments that might need a more fashion-forward approach.

Ames said it will introduce efficiencies that should improve the stores' competitive posture. Some examples:

- A new satellite communications program which has reportedly received the approval of top management;
- An inventory control system that in the past year cut Ames' shrinkage rate in half;
- A new and productive store configuration that should be as effective in metro markets as in rural areas;
- Efficient distribution systems that have dramatically reduced out-of-stocks, a major Zayre operational weakness.

Longer-term, the company must decide whether to keep the recognizable Zayre name alive or to fold the stores into the Ames operations. According to Hollis, the Zayre name will probably be dropped, but the company plans to conduct consumer focus groups before making any final decision.

Hollis blamed steps taken by management in the fourth quarter of last year for accelerating Zayre's skid.

"There was a liquidation of inventory," he said, "At the same time, there was an attempt to be more everyday low price, at the same time that the circulars were getting loaded up with highly consumable, identifiable products. The net result was a rapid and sudden decrease in gross margin. That is simply not how we would run our business."

Whatever the source of the problems, it appears that Ames got a good deal. Salomon's Siebald noted that at about $2 million per store, with inventory, the price works out to about 22 cents on the sales dollar.

According to Hollis, Zayre has "exceptionally low-cost leases," which fits in with Ames' operating theory, and Hollis noted that Herb Zarkin, recently named chairman of Zayre Stores and now executive vice president at Ames, had "completed the cleansing of the inventory at Zayre stores . . . markdowns have been taken . . . and the inventory is ready to do business."

Hollis said that, while it may take as long as two years to bring Zayre up to Ames' profitability standards, "Zayre stores should be marginally profitable in the fourth quarter of this year."

Wholesale Club Battles in Midwest

(Continued from page 3)

WHLSP as its symbol. The company's common stock, WHLS, has been traded through the NMS for a number of years.

The Wholesale Club's 100,000-square-foot unit in the Grand Rapids suburb of Kentwood will be its first store in Michigan and 19th overall. The chain now operates in Michigan, Minnesota, Indiana, Ohio and Wisconsin.

The $120 million company plans to open four or five new clubs next year, compared to the three it unveiled this year. The new units are expected to be in the chain's current states and possibly Illinois.

The proposed move into the Grand Rapids area in southwestern Michigan reflects the chain's plan of locating stores in markets that don't have other clubs. Of the eight cities where the chain already has stores, it only faces competition from another club in Canton/Akron and Columbus, Ohio, from Warehouse Club and in Cleveland from Makro.

The Wholesale Club's growth strategy is to place as many stores as necessary to sew up a market, discouraging competitors. The chain has been more successful in the Upper Midwest than other membership clubs. Costco pulled out of the region by closing its Minneapolis units, leasing one to The Wholesale Club. The Warehouse Club shut two Detroit stores, leasing them to American Wholesale which later closed the units.

Sam's has followed a similar expansion strategy, planting multi-units in major metro areas like Dallas/Fort Worth (eight stores) and New Orleans (four stores) while being the first to enter smaller markets like Waco, Texas, and Huntsville, Ala.

Prodigy Signs Lechmere; Adds 4 Markets

(Continued from page 1)

program on TV and radio, in newspapers, and general and computer magazines;

- Launched its service in four cities—Los Angeles, San Diego, Sacramento and Santa Barbara, Calif.—to reach a total of seven markets;
- Named Detroit as a new market for 1989.

Lechmere, a Woburn, Mass.-based hard goods chain, is in the final stages of setting up a fulfillment operation, an expansion of its existing phone order service, to handle PRODIGY orders.

Lechmere's use of PRODIGY will enable the chain to gauge consumer response to its merchandising in markets where the chain doesn't have stores, especially the West Coast. Lechmere's 24 stores are in eight East Coast states.

Following the lead of Lechmere and K mart, other full-line and specialty discounters are expected to join PRODIGY within the next few months. The other retailers now on the service are traditional department stores.

PRODIGY, which is available for a $9.95 a month fee, is a videotex service that allows personal computer owners to access a broad range of goods and services including shopping, travel, banking and electronic mail, and information on news, weather and sports.

Prodigy Services Co., a $400 million-plus joint venture between IBM and Sears, said that Nash Finch would begin merchandising on the service in the next few months, joining two other food retailers, Grocery Express and Kroger. Nash Finch is expected to provide grocery services in the Upper Midwest when markets there get PRODIGY. Kroger is currently on the service in Atlanta; Grocery Express is in San Francisco.

The electronic retailer launched its service in June in Atlanta, San Francisco, Hartford, Conn., and its home base of White Plains, N.Y., while targeting the metro New York area as a 1989 market.

Nash Finch already merchandises grocery, health and beauty aids, and floral products on Telaction, JCPenney's interactive cable TV shopping and information service that still is in a start-up mode in Chicago, reaching about 4,000 homes on one system.

Over 120 retailers and service providers have joined PRODIGY, with about 70 already advertising on the service. The retailers include Sears, JCPenney, The Broadway, Neiman-Marcus and Spiegel.

Meanwhile, Sears, JCPenney and Neiman-Marcus, along with such other retailers as Consumers Distributing, Oshman's SuperSports, and Dayton Hudson Department Stores are on Telaction.

Prodigy also said that it has started to market its service through a network of retailers that already includes seven computer hardware and software chains, including Radio Shack, Computerland, Egghead Discount Software, Sears and Sears Business Centers.

These retailers sell PRODIGY start-up kits, which include an optional modem for computer owners who don't have this device. K mart and Lechmere are likely to sell PRODIGY start-up kits once they market on the service.

All these moves are part of a major effort by Prodigy to promote its service to both computer and non-computer owners. A spokesman said the $30 million ad campaign and the other steps should finally make computer services well known to the public, not just to computer owners.

Prodigy later this year expects to identify 11 other cities that it will enter in 1989 to reach its first goal of offering its service in 20 of the nation's top markets by the end of next year. Trade observers expected that these new markets will include a number of major Midwestern and South Central cities. Chicago is a likely market because of Nash Finch's tie-in into the service.

The 20 markets Prodigy expects to be in by the end of next year will contain 41 percent of the nation's households; its goal is to eventually be available in cities that house 80 percent of U.S. homes.

Catalogers Spurn Takeover Offers

(Continued from page 1)

led trade observers to speculate that any takeover would likely maintain each cataloger as is, rather than sell assets as had occurred in other takeovers of retailers like Federated Department Stores.

Zimmerman didn't say why Service management wouldn't proceed with its plan.

Security analysts speculated that Zimmerman's proposed buyout was a move to set Service's stock in play. Despite heavy trading of the stock, the proposal at presstime didn't seem to attract other potential buyers.

The Best buyout announcement pushed its stock to a $19.50 a share high. The stock at presstime has continued to trade near its high.

Best declined to identify who made the $21 a share offer or the "certain parties that have expressed an interest in acquiring the company." Best said it "is providing information to, and is holding discussions with," these parties.

Security analysts guessed that the offer came from The Prospect Group, a New York investment firm that owns 9.9 percent of Best's stock. Prospect chairman W. Wallace McDowell Jr., had "no comment" on the speculation.

He said Prospect about two months ago had bought approximately 2.5 million Best shares at about $13 a share because "it was a good investment." At that time, Prospect said it might talk with management on a "possible acquisition or control" of Best.

Service has also been cited as a possible acquirer of Best as the value of the management group's proposal was about the same amount as the offer for Best. Zimmerman had "no comment" on any Service interest in Best.

Besides Prospect and Service, observers speculated that a foreign retailer was among those interested in Best. There were rumors earlier this year that a Japanese retailer approached Service, but the cataloger declined to comment on the report.

Best wouldn't name members of the board of directors' committee that is considering Best's future. The committee is advised by Merrill Lynch Capital Markets and Wheat, First Securities, whose chairman, James C. Wheat Jr., is a Best board member.

Security analysts were surprised by Best's rejection of the $21 bid as $21 to $25—particularly the lower amount—was considered a fair offer for the company. The consensus was that Best turned down the first offer to see what other bids might develop.

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Auchan Opens U.S. Hypermarket; Heralds Lowest Prices in Houston

Auchan unveiled the nation's third 'true' hypermarket in Houston. The 230,000-square-foot store opened Oct. 14. (DSN photo)

HOUSTON — With the hoopla of a homecoming pageant, the Auchan Group, the $9 billion French retailer, opened its first U.S. hypermarket here this month. It is the third true hypermarket concept to open in the United States in the past 10 months.

Led by the music of a local high school band as well as the Auchan bird character, opening ceremonies contrasted sharply with the relatively "quiet" debut of Carrefour, Auchan's France-based competitor which opened its first U.S. hypermarket in Philadelphia earlier this year.

Auchan execs, with local politicians, major vendors and the media, opened the doors to the 230,000-square-foot grocery and general merchandise store, on a 31-acre site in the southwest section of the nation's fourth-largest city.

The store, operated by Texfield Inc., an Auchan subsidiary formed in 1987, will have an immediate impact on the competitive Houston market.

"A highly competitive market is good for Auchan and other retailers because it forces us all to strive to be the best," said Wilfrid d'Audif-

(Continued on page 8)

Best to Be Acquired in $1.1B Buyout

By Arthur Markowitz

RICHMOND, Va. — Best Products' stockholders are expected to approve by mid-November a $1.1 billion "friendly" buyout of the cataloger by Adler & Shaykin, a New York investment company that was the winner among five firms bidding for the $2.1 billion retailer.

Both Best's management and Adler & Shaykin executives said they expect to continue the cataloger's operations as is, without any change in personnel or sale of assets. Adler & Shaykin plan "a detailed review" of Best after its acquisition.

The pending $27.50-per-share acquisition of Best, the catalog industry's No. 2 chain, has resulted in the takeover spotlight now shifting back to the leading showroom operator, $2.7 billion Service Merchandise. Any of the four unidentified losing bidders for Best, along with Adler & Shaykin, were among other companies that security analysts believe could be interested in buying the Nashville, Tenn.-based chain.

Best earlier this month turned down as "inadequate" a $21-a-share offer worth a total of $522 million from an undisclosed party, reported to be the Prospect Group, another New York investment firm that owns 9.9 percent of Best's stock. Best's rejection came as Service's management called off a proposed leveraged buyout of that company at $13.50 a share or $460 million (see *DSN*, Oct. 10, page 1).

(Continued on page 8)

A Year After The Crash

Takeovers Fuel Discount Stock Gains

By Neil Nordby
Special to DSN

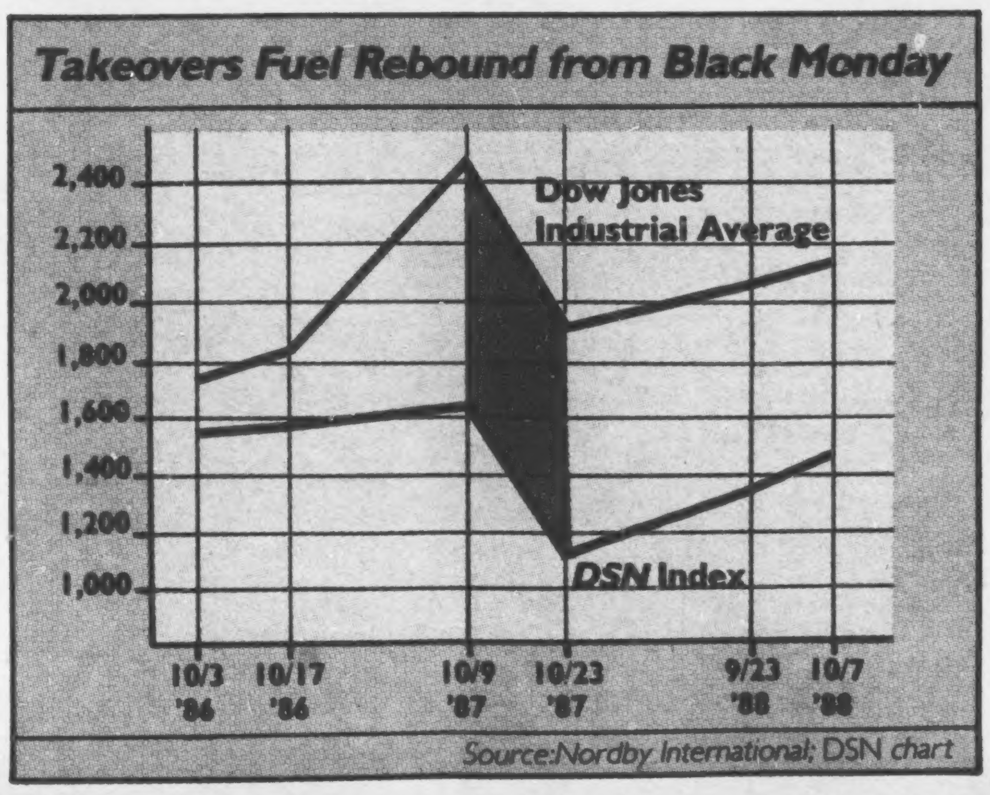
News Analysis

One year after the worst collapse in stock market history, Wall Street pros have been relegated to chasing takeover deals, most of which dissipate into thin air like a dream, or a pipe-dream in many cases.

With the third quarter just coming to an end, acquisitions, takeovers and buyouts are the only game in town. In other words, while the average investor continued to cling to the sidelines in the aftermath of Black Monday (Oct. 19, 1987), a select few played the takeover game.

This takeover game is producing most of the profits on Wall Street one

(Continued on page 79)



Source: Nordby International; DSN chart

Celebrates
Christmas in AMERICA
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1988 GIFT GUI
As part of K mart's holiday promotional program, the chain will offer this four-color holiday gift guide.

Marketing Program's Aim: Spend Christmas in K mart

By Tony Lisanti

TROY, Mich. — K mart Corp. has unveiled plans for its most aggressive, coordinated holiday marketing program, set to debut nationwide Nov. 1.

Called, "K mart Celebrates Christmas in America," the promotional campaign, which is tied to the introduction of a new pictorial book entitled "Christmas in America," published by Collins Publishers, underscores America's holiday spirit and traditional values of family and home.

"It was a natural that K mart should use this book to convey to our customers that we are not just a store for Christmas gifts, but we are a store that conveys the Christmas spirit of America," said Mike Wellman, vice president of marketing, during a press luncheon at K mart headquarters.

Following a strong September in which K mart reported a 7.1 percent increase in sales over the same period last year, the nation's No. 1 discounter, which will post over $4 billion in sales in the month of December, has high hopes for a strong holiday season.

"We are expecting a very good Christmas season with total corporate sales [to rise] in the 6 percent to 7 percent range," predicted Richard Miller, executive vice president. He also identified K mart's list of "hot" products for Christmas (see story, page 8).

"The election will probably not have any effect on Christmas this year, but my experience has been that right about now people get very interested in the election

(Continued on page 8)

SPECIAL REPORT

1988 Top Brands

II: Consumer Survey

Consumers'

anagers' Favorites—page 25

Many Shoppe

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MARKETWATCH

Pic 'N' Save Buys N.Y. Closeouter

CARSON, Calif. — Closeout specialist Pic 'N' Save will stretch its market coverage to New York with the acquisition of regional closeouter Job Lot Trading from Zilber Ltd. for an undisclosed amount. Pic 'N' Save and Zilber have agreed in principal to the deal, which will give Pic 'N' Save 15 stores in metropolitan New York. Pic 'N' Save will also assume control of Job Lot's warehouse, office and support facilities. Job Lot's 1988 sales are expected to exceed $35 million, according to Pic 'N' Save, which had sales of $362 million at the close of last year. Currently, Pic 'N' Save operates 135 stores in the West and South.

Sears to Accept Major Credit Cards

CHICAGO — In a move related to its acquisition of Western Auto, Sears, Roebuck & Co. will start accepting on a test basis Visa, MasterCard and American Express credit cards, in addition to Sears and Discovery cards. In acquiring Western Auto this March, Sears also acquired the Tire America and NTW tire specialty chains, where Visa and MasterCard are "valuable and important" for major purchases, such as tires, a spokesman said. In another spin-off, Sears is starting to sell national brand tires, reversing its long-standing policy of handling private label tires only. Sears started testing its new credit card policy last month in four Richmond, Va., stores and will test it in eight more starting this month.

PACE Opens 10th California Unit

DENVER — PACE opened its 10th warehouse in the competitive Southern California region this month. Located in Gardena, the new site is also PACE's 10th in the state and joins existing California warehouses in Cathedral City, Chino, Downey, El Monte, Fountain Valley, Fullerton, San Bernardino, San Fernando and Woodland Hills. The latest entrant is expected to generate $40 million in annual sales, and brings PACE's nationwide warehouse count to 36. The company expects to open four additional sites during the next three months.

The Wholesale Club to Add Minn. Site

INDIANAPOLIS, Ind. — The Wholesale Club plans to open a store in the Hermantown suburb of Duluth, Minn., next spring as its 20th unit and sixth in Minnesota. The Duluth membership warehouse and one announced earlier for the Grand Rapids, Mich., market (see *DSN*, Oct. 10, page 3) are among the four or five units The Wholesale Club plans to open next year. The $5 million Duluth store is being constructed by BMC Realty, a Kansas City, Mo., developer.

Zayre Tests Auto Quick-Lube Service

FRAMINGHAM, Mass. — In an attempt to put its former full-service auto bays to better use, Zayre has been testing quick-lube service in several stores and may expand the service to all of the 100 or so stores that offer full auto service. Zayre, which at presstime was about to become part of the Ames Department Stores chain, closed those service centers two years ago and turned to tire specialty retailing. Once calling its tire shops Tire Slashers, Zayre offers tires at exceptionally low markups. With the addition of quick-lube service, Zayre now calls the centers Express Tire and Lube. For an oil and filter change and a 14-point service that includes lubricating vital fittings, Zayre charges an everyday low price of $16.97, said Stan Berkovitz, vice president for community relations.

Gold Circle Liquidation to End in Nov.

WORTHINGTON, Ohio — The liquidation of Gold Circle's inventory is expected to be completed sometime around Thanksgiving, when the units will be operating under the jurisdiction of their new owners. Kimco Development Corp., Roslyn, N.Y., expected the sale of the 76-unit chain to close on Oct. 17. At that time, 31 units were to be sold to Target, 35 leased by Hills Department Stores and two were to be leased to K mart, according to Todd Cooper, vice president of Kimco. The remaining eight units have yet to be leased, said Cooper, noting that Kimco is actively negotiating with other discount retailers, home improvement and grocery operators to lease the stores, located in Dayton and Cleveland, Ohio, and Buffalo, N.Y.

Price Savers Spin-Off Proceeds

SALT LAKE CITY — The sale of Price Savers Wholesale Warehouse to a management-led investor group is still on, even though Kohlberg Kravis Roberts & Co. dropped its unsolicited bid to obtain the membership warehouser's parent, Kroger Co. The Hafts, controllers of the Dart Group, have also been after Kroger, and reportedly are still interested in the company. Kroger expects to have the restructuring completed around Oct. 28, when [illegible] et to pay a special $40-a-share dividend.

Price Looks to Pad Property Portfolio As Sales Surpass $4 Billion Mark

By Pamela Krein

LOS ANGELES — Price Club is currently in the running to build an 800,000-square-foot retail site in Burbank, Calif., that would provide the company with its largest development to date.

The deal, if successful, would add to Price Club's already impressive real estate portfolio: the retailer currently owns 37 of its 39 membership warehouse club sites.

Price Club also reported that its sales eclipsed the $4 billion mark for the just-completed fiscal year, ending Aug. 28. Volume increased more than 25 percent to $4.05 billion, as net income grew 29.2 percent to $94.8 million.

For the fourth quarter, sales increased 25.3 percent to $985.6 million, while net income rose 26 percent to $24.1 million in the quarter. Comparable sales increased 12.97 percent in the fourth quarter and 5.52 percent in the full year.

Price Club currently operates 40 warehouses in the United States and three locations in Canada through a joint venture with Steinberg Inc.

In addition to its own retail real estate holdings, Price Club has an interest in numerous other properties through P&K Associates—a joint venture created in 1985 between The Price Co. and Kornwasser and Friedman Shopping Center Properties. The 41-acre Burbank site currently under consideration would be developed by P&K.

P&K currently is planning, developing or managing some 30 real estate projects. According to the company, these holdings total more than 7.8 million leasable square feet and are valued at $501 million, with total financing for the

(Continued on page 82)

Stuarts' Management Initiates LBO

Regional Discounter Seeks Financial 'Freedom'

HOPKINTON, Mass. — Harry Kohn Jr., president of Stuarts Department Stores, headquartered here, is leading a group of senior management and other institutional investors in a leveraged buyout of the 21-store discounter, *DSN* has learned.

"We have held preliminary discussions with the board of directors," Kohn told *DSN*, "but we have not reached any agreement. We are still in the discussion stage."

Stuarts' stock rose to as high as 5⅜ per share following the news of the possible sale of the company. During the past year, Stuarts' stock traded as high as 7⅛ and as low as 2¼. There are about 4.3 million outstanding shares.

Kohn believes that the discounter will be a stronger chain as a privately owned company without the pressures and requirements of being a public company. "It will give us a little more freedom to tighten expenses and devote more of our efforts to achieving results," he said.

The former Bradlees president said Stuarts is a "viable regional discounter with an apparel and fashion orientation that gives the chain a niche in the marketplace."

However, soft apparel sales throughout the industry continue to plague Stuarts.

Sales of $33.5 million during the second quarter, ended July 30, were flat over the same period last year. There was, however, a substantial gain in net income, which was attributed to "tighter control of selling, general and administrative expenses." Stuarts reported a second quarter net income of $232,000 vs. last year's loss of $277,000. Second quarter comp store sales, however, fell 1.6 percent.

With 21 stores in six New England states, Stuarts broke ground in July for its 22nd store, a 55,000-square-foot facility in New Bedford, Mass.

DSN Names New Board of Advisors

NEW YORK — *DSN* has named a new Board of Advisors. The new board, composed of 10 executives representing the discount industry from A (Ames) to Z (Zayre), replaces *DSN*'s old board of advisors which periodically met with *DSN*'s editor to discuss topics of interest to the industry. The new board members, each of whom pledged to be actively involved in providing input to *DSN* on issues of concern to the discount industry, are:

- Jack E. Bush, president, Rose's Stores;
- Stephen Goldberger, chairman, president, Hills Department Stores;
- Richard Hersh, president, International Mass Retail Association;
- Peter Hollis, president, Ames Department Stores;
- Harry Kohn Jr., president, Stuarts Dept. Stores;
- Arlie Lazarus, president, Jamesway Corporation;
- Julian M. Seeherman, president, Venture Stores;
- Warren W. White, general manager, Clover;
- Herb Zarkin, chairman, Zayre Stores;
- Ray Zimmerman, chairman, president, Service Merchandise.

Upcoming issues of *DSN* will profile each of these industry leaders.

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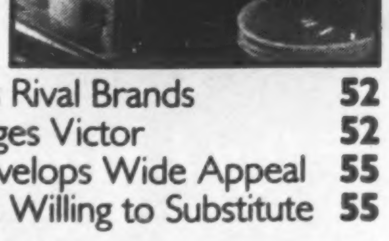

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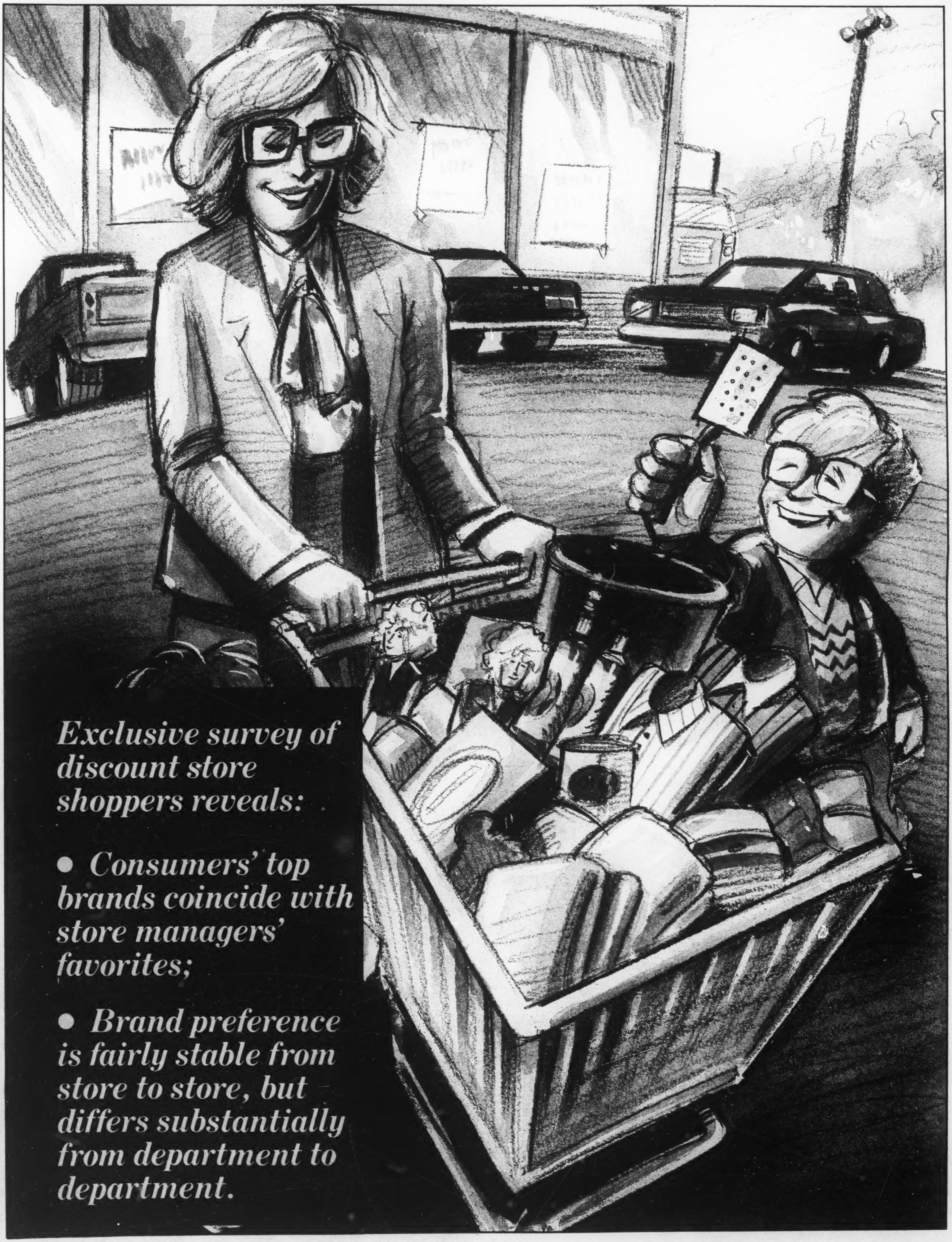
TOP BRANDS

Part II: Consumer Survey



Exclusive survey of discount store shoppers reveals:

- *Consumers' top brands coincide with store managers' favorites;*
- *Brand preference is fairly stable from store to store, but differs substantially from department to department.*

Consumers' Top Brands

Automotives ***61***
Pennzoil
Quaker State
Fram

Consumer Electronics ***52***
General Electric
Sony
Panasonic

Cosmetics ***44***
Cover Girl
Maybelline
Revlon

Domestics ***52***
Cannon
Fieldcrest
J.P. Stevens
Martex
St. Mary's
Pepperell

Food, Candy, Snacks ***68***
Hershey's
Brach's
Snickers

Hardware ***62***
Stanley
Black & Decker
General Electric

Health & Beauty Aids ***73***
Crest
Colgate
Lever Bros./Ivory/Dove

Household Chemicals ***49***
Tide
Comet
Lysol

Housewares ***49***
Rubbermaid
General Electric
Corning

Children's Apparel ***43***
Health-Tex
Levi's
Carter

Ladies' Apparel ***44***
Lee
Gitano
L'eggs

Men's Apparel ***43***
Fruit of the Loom
Levi's
Hanes

Personal Care ***55***
Clairol
Conair
General Electric

Photo, Camera ***55***
Kodak
Fuji
Polaroid

Sporting Goods ***71***
Wilson
Spalding
Zebco

Stationery ***73***
Hallmark
American Greetings
Bic
Mead

Toys ***61***
Mattel
Fisher-Price
Tonka
Hasbro

Discount store shoppers nationwide named their preferred brands in 17 merchandise categories, in a poll conducted for Discount Store News by Leo J. Shapiro & Associates.

First Consumer Top Brands Survey:

Shoppers, Managers Share Favorites

By Donald Longo
Nationwide DSN Report

Store managers appear to have their fingers on the pulse of consumer tastes when it comes to identifying the most sought-after name brands in discount department stores.

Asked to name the brand they would want to buy when making a purchase in each of 17 departments of a discount store, consumers picked many of the same brands identified by store managers as among their best performing labels in *DSN*'s annual Store Manager Top Brands Survey (see *DSN*, Oct. 10). *DSN*'s first Consumer Brands Survey revealed:

- Brand preference is fairly stable from store to store;
- However, brand preference differs substantially from department to department;
- Private labels are more often accepted when preference for national brands is low.

In the automotive, sporting goods, and food, candy and snacks departments, eight of the 10 brands that consumers most often wanted were also the brands that store managers said are their best performers. And, within these departments, there is general agreement on the order of importance of these brands.

In contrast, there is less agreement between managers and consumers in how they view brands in children's apparel and household cleaners. In these areas, only five of the top 10 brands that consumers wanted in the store were described by managers as among their top 10 performing brands in those departments.

Examining all 17 departments covered by both surveys reveals that consumers and managers agreed on at least seven of the top 10 brands in more than half of the departments. In 15 of the 17 departments, consumers and managers were in agreement on six or more of the top 10.

Major brands like Rubbermaid, Stanley, Kodak, Pennzoil, Wilson, Cannon, Crest, Hershey's and Tide took the top positions on both the consumers' and managers' lists. Not only were these brands cited most often by managers, but shoppers also named them as preferred brands when preparing to make a purchase.

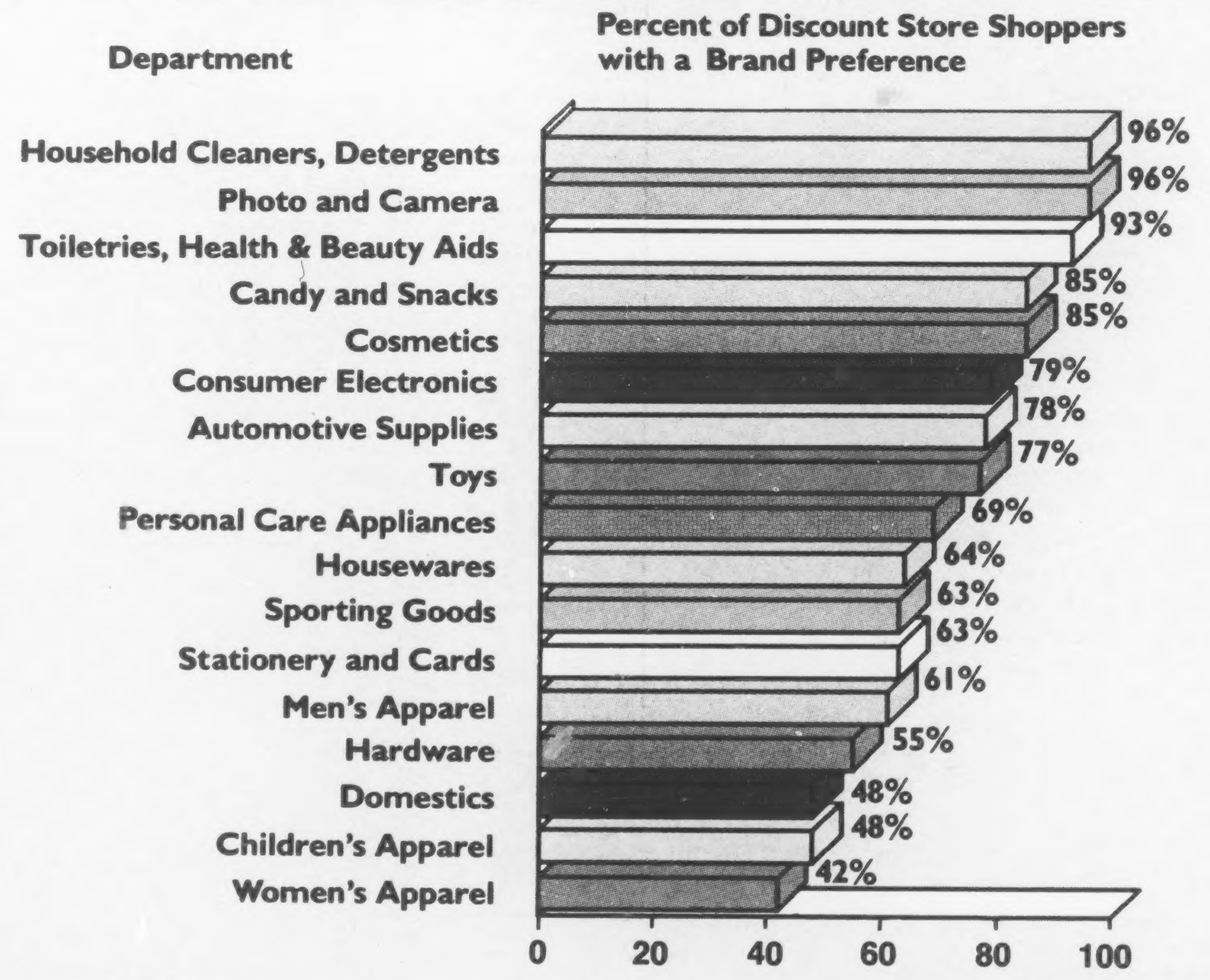
Some brands scored high in consumer preference but were either overlooked by store managers or were ranked relatively lower by managers. These include General Electric, Fuji, Mattel, Sony, Hallmark, Fruit of the Loom, L'eggs, Health-Tex, Levi's, and Carter.

There could be many reasons for a brand's better showing among consumers than managers. Many of the brands mentioned by consumers are not generally available to discount stores, so managers can be expected to ignore or downplay those brands when naming their top performers.

Other brands have created a dominant consumer franchise through extensive advertising. These brands would be expected to garner the lion's share of mentions from consumers. However, if stores are not adequately displaying and merchandising them, these brands may receive lower ratings from managers in regard to their performance. Also, if the brands are

(Continued on page 37)

Consumers Brand Preference by Department



Source: Discount Store News/*Leo J. Shapiro & Assoc.*

988 Households Polled for Survey

NEW YORK — This exclusive consumer brand study is based on a national sample of 988 households who were asked their brand preferences in 17 departments of the discount department store. The departments are the same 17 examined in the Store Manager Top Brands Survey, the results of which were published in the Oct. 10 issue of *Discount Store News*.

Unlike other consumer surveys, this study measures the brand preferences of *discount store shoppers*. The study covered only households who reported having shopped at a discount department store during the past year and limited results to households who made at least three trips during the year to discount department stores.

For each department, consumers were asked to think of an item they might be buying if they were shopping in that department of the discount department store they patronize most often. They were then asked to name the brand they would want if they were to make a purchase.

Besides measuring the degree of brand preference by department, and the preference for individual brands within those departments, this study also asked consumers how confident they were of finding their preferred brand in each department of the store. Then, it asked consumers if they would be more likely to switch to another product or skip the purchase entirely if their preferred brand was not available in the store. This analysis will help the discount store merchandiser identify departments in which there is a high penalty for failing to have the brand that the consumer expects to buy in the discount store.

Agreement of Trade and Consumers
Top 10 Brands: 1988

Department	Number of Brands Store Managers and Consumers Agree On*
Automotive Suppliers	8
Sporting Goods	8
Food, Candy & Snacks	8
Toys	7
Consumer Electronics	7
Men's Apparel	7
Ladies' Apparel	7
Personal Care Appliances	7
Housewares	6
Photo & Camera	6
Stationery	6
Cosmetics	6
Domestics	6
Health & Beauty Aids	6
Children's Apparel	5
Household Cleaners & Chemicals	5

**Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?*

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

How Consumer Preferences Affect Brand Trends in 17 Departments

Department	Mean Level of Confidence of Finding Brand*	Percent 'Not Sure'**	Preferred Private Label	Would Skip Purchase If Preferred Brand Unavailable
Health & Beauty Aids	7.99	8.3%	6.9%	51.7%
Photo and Camera	7.89	11.6	3.0	57.0
Candy and Snacks	7.82	13.0	5.7	41.0
Household Cleaners	7.80	10.4	4.0	49.3
Cosmetics	7.65	15.6	5.8	64.2
Toys	7.63	14.5	1.1	51.1
Housewares	7.57	13.9	8.4	48.0
Personal Care Appliances	7.46	15.7	3.9	44.9
Children's Apparel	7.44	14.0	28.0	40.2
Domestics	7.36	19.9	14.6	35.1
Automotive Supplies	7.34	17.8	11.6	57.4
Hardware	7.19	21.5	25.1	55.3
Stationery & Cards	7.18	21.7	9.4	32.6
Consumer Electronics	7.08	19.7	3.4	57.9
Women's Apparel	6.99	22.2	29.1	45.3
Men's Apparel	6.89	23.5	18.7	55.7
Sporting Goods	6.79	25.8	6.6	53.3

**Consumers were asked how likely would they be able to find the brands they want in each department. Mean: Rating on scale of 1 to 9 with 9 meaning they were "certain" of finding their preferred brand in a discount store.*
***Ratings of 1 to 5 are grouped together indicating "Not Sure."*

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumers Prefer to Skip Purchase If Favorite Brand Is Not Available

By Laura Liebeck
Nationwide DSN Report

While consumers and discount store managers concur on many leading brands, discounters may be losing sales in areas of disagreement. That's because, in many instances, discount customers say they are reluctant to switch to other brands if their first choice is unavailable.

In fact, results from the first Consumer Brands Survey revealed that many consumers will forgo a purchase entirely rather than buy an alternative brand.

Above all else, consumers view discount stores primarily as purveyors of brand name goods, according to survey results.

In all but three categories—domestics, children's apparel and women's apparel—consumers showed a strong preference for specific brands and were adamant about purchasing them. In nine of those departments, a large percentage of consumers said they would skip the purchase entirely if their preferred brand was not available.

Further, consumers expressed a significant measure of uncertainty about finding their preferred brands in 12 of 17 departments at their primary discount store.

Of those merchandise categories, 19 percent or more of the consumers questioned said they were "not sure" about finding their preferred brands in seven departments.

Those seven categories include sporting goods, with the highest "not sure" rating, followed by men's apparel, women's apparel, stationery and cards, hardware, domestics and consumer electronics.

In many cases, consumers said they would switch brands if they couldn't find the one they wanted. This was particularly true in stationery and cards, domestics, children's apparel, candy and snacks, and personal care appliances.

One key finding of the consumer survey was the definition of high-risk and low-risk categories for discounters.

For example, discount store shoppers looking for toys expressed almost no interest in private label or off-brand goods, and would tend to skip purchases if their favorite brand wasn't available. Therefore, toys is a high-risk merchandise department where the discounter would lose the sale, and possibly the customer, if, say, Fisher-Price toys were not available.

(Continued on page 40)

Shoppers, Managers Share Favorites

(Continued from page 33)

very dominant among consumers, but used extensively as traffic builders, there may be little profit in them. Managers, therefore, may underestimate the value of those loss leaders as "best performers."

Also of note are brands that have gained consumer awareness after achieving a strong position with the trade. Notable examples include Gitano, Emerson, Mead, and Coleman. These brands are favorites of managers and also are gaining momentum among consumers. Jaclyn Smith apparel apparently is being viewed by consumers as a popular national name brand rather than a K mart store label.

Preference for brands was lowest in soft goods. Fewer than 50 percent of consumers stated a brand preference in domestics, ladies' apparel and children's apparel. This compares with upward of 90 percent of consumers who stated a preference in photo, household cleaners and H&BA.

Possibly because brand preference is low, more than one out of four consumers said they preferred a store brand or private label in women's and children's apparel. The lowest acceptance of private label was in toys, photo and CE, which also showed high levels of brand preference.

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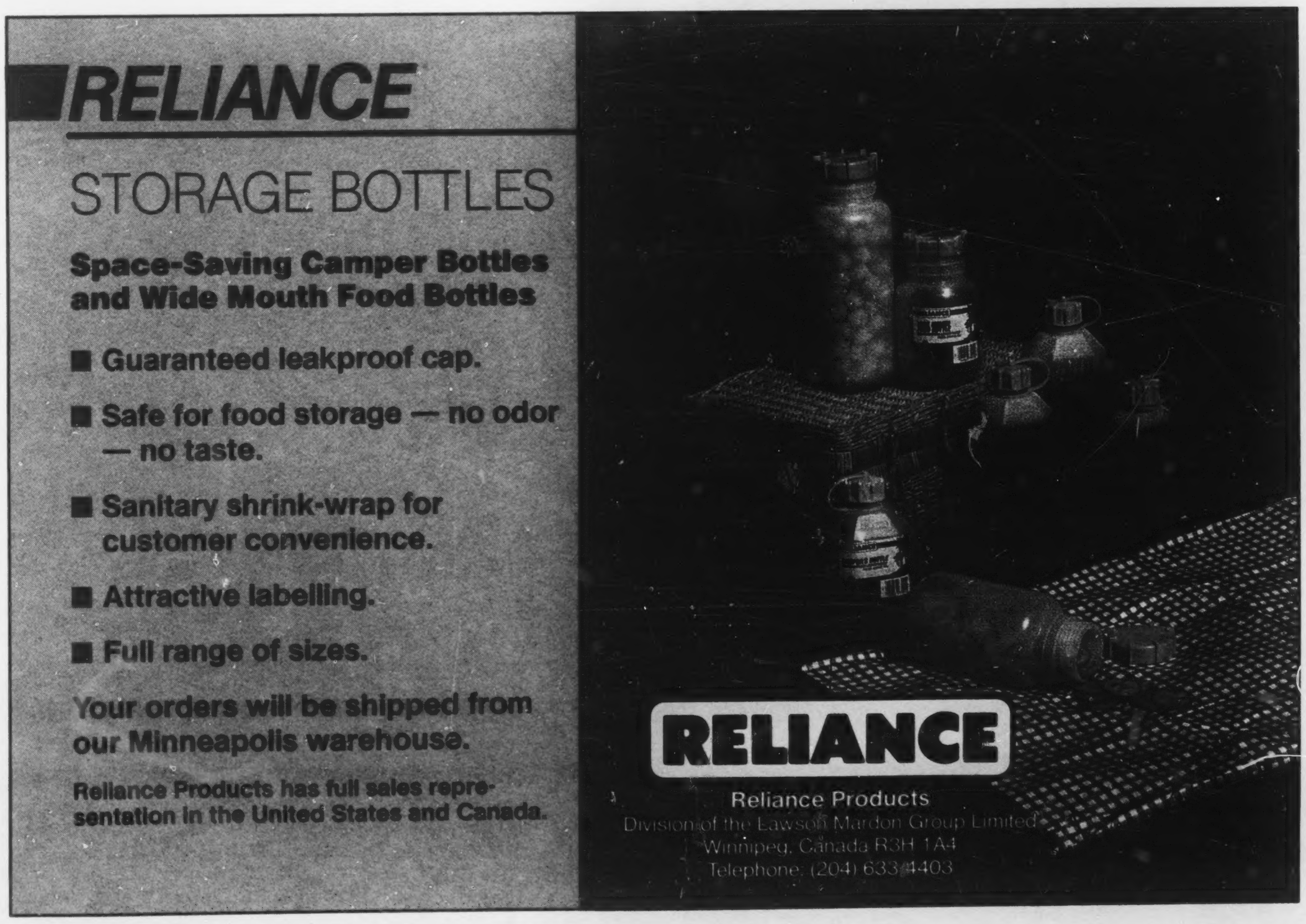
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Consumer Snapshot:

They'd Rather Skip Top 5 Departments In Willingness To Skip Purchase If Their Preferred Brand Is Not Available in Store	They'd Rather Switch Top 5 Departments In Willingness To Switch to an Alternative Brand If Preferred Brand Is Unavailable
Cosmetics	Stationery and Cards
Consumer Electronics	Domestics
Automotive Supplies	Children's Apparel
Photo and Camera	Candy and Snacks
Men's Apparel	Personal Care Appliances

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumers May Skip or Switch Purchase

Consumer Snapshot:

The Top 5 Departments In Private Label Preference	The Bottom 5 Departments In Private Label Preference
Women's Apparel	Toys
Children's Apparel	Photo and Camera
Hardware	Consumer Electronics
Men's Apparel	Personal Care Appliances
Domestics	Household Cleansers

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

(Continued from page 37)

Other high-risk categories include photo and camera, consumer electronics, automotive supplies, health and beauty aids, and cosmetics.

In the low-risk merchandise categories, consumers were more likely to find substitute brands or private label goods acceptable.

The survey identified seven low-risk categories—departments in which consumers have a low expectation of finding certain brands and are quite willing to substitute other labels. They are: stationery and cards—the department with the highest switch percentage—candy and snacks, housewares, household cleaners, personal care appliances, children's apparel and women's apparel.

The degree to which customers will switch or forgo the purchase varies considerably by product category and the confidence consumers have in finding their product at their discount store.

Confident of Finding Brand

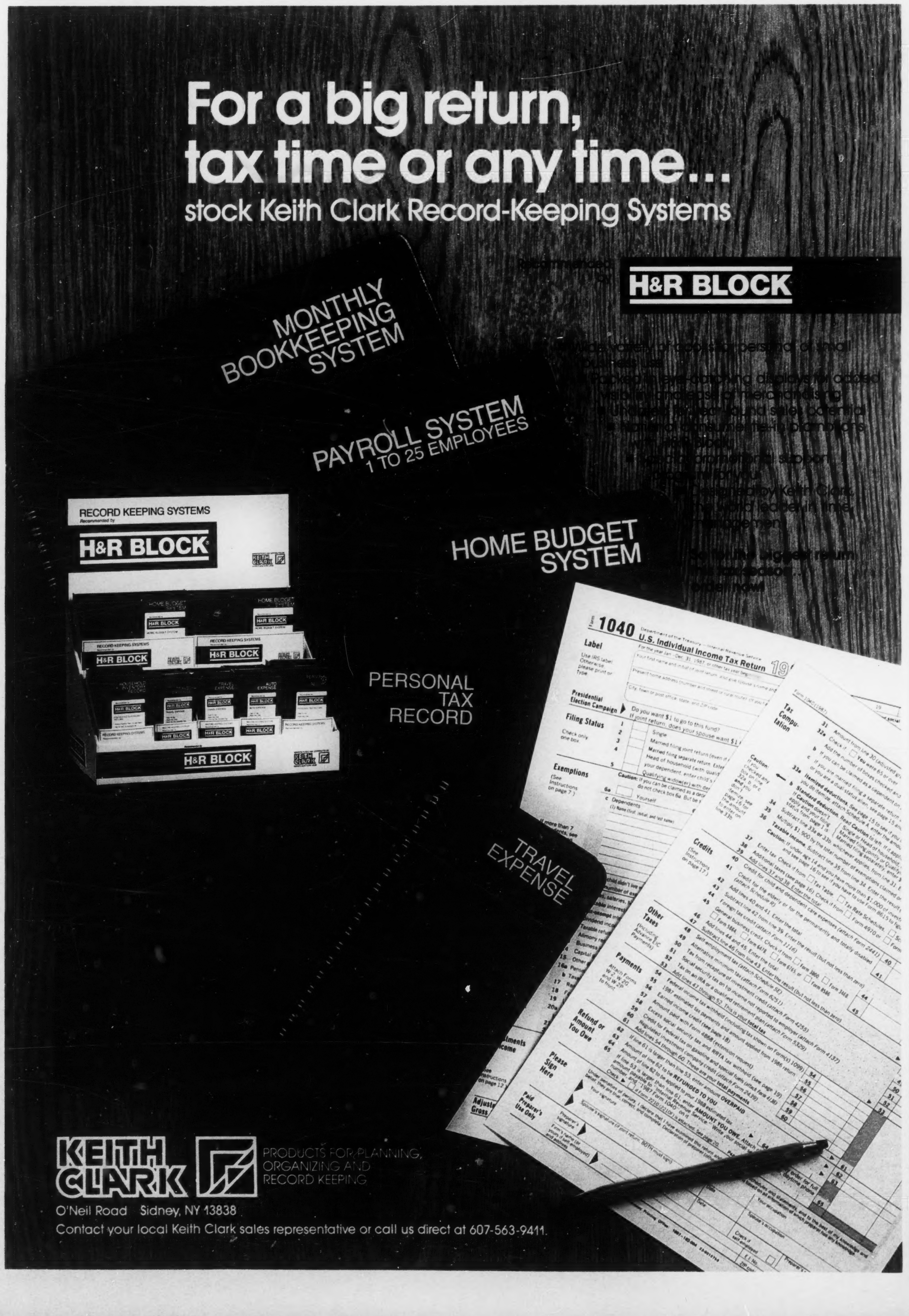
According to the survey, consumers are very confident they'll find candy and snacks, household cleaners, housewares, children's apparel and personal care appliances in the brands they want. But if they don't, they will switch brands.

However, in other departments, consumers would rather skip the purchase than switch to another brand. Health and beauty aids, photo and camera, toys and cosmetics are departments in which consumers not only expect a store to be carrying their preferred brand, but also won't switch to another brand. These departments recorded very high consumer brand preference percentages and expectations of retail availability.

Consumer acceptance of private label products varied by category and brand preference but not by age, education or gender.

Survey results revealed that preference for private label products is relatively high in departments where overall brand preference is relatively low. This is particularly true in such categories as apparel and domestics, areas where K mart has made major inroads with store label goods.

Among shoppers of the four largest discount store chains, brand sensitivity appears fairly even. However, Wal-Mart and Target customers are more willing to purchase private label merchandise than are K mart and Zayre shoppers. This may suggest that Wal-Mart and Target have been very successful at distinguishing their store labels and shoppers believe these products to be a good value. K mart, on the other hand, has developed its own products to such an extent that Jaclyn Smith, and perhaps Martha Stewart, might be perceived by many shoppers as national name brands.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Top Brands

Apparel

PART II: CONSUMER SURVEY

Fruit of the Loom Spins to Top of Men's Wear List

Nationwide DSN Report

Fruit of the Loom, with its slogan "We Fit America," is apparently doing just that, at least as far as discount store shoppers are concerned.

Fruit of the Loom topped all brands in the percentage of mentions by consumers when asked if they had a brand preference in men's apparel, according to a survey of discount store consumers' preferences conducted by Leo J. Shapiro & Associates for *DSN*.

Fruit of the Loom, which had been named by the largest number of store managers a year ago as among their best performing brands, dropped to No. 3 in this year's store managers' survey (see *DSN*, Oct. 10).

The popular Levi's jeans brand ranked No. 2 among consumers, much higher than its sixth place showing in the store managers' survey. One of the reasons for the discrepancy is that Levi's doesn't sell its brand directly to discounters, which undoubtedly affects the way store managers perceive the brand.

Hanes, another underwear brand, ranked No. 3 with consumers (it received the fourth-largest number of mentions from store managers), followed by the two other major jeans brands, Wrangler (second among store managers) and Lee (first among store managers).

Though they would be hard-pressed to find them in discount stores, consumers mentioned Arrow and Jockey often enough to rank these two popular department and specialty store brands at Nos. 6 and 7. The study's results are based on responses from households who have made at least three trips during the past year to discount department stores, which means those consumers may also shop elsewhere.

Dickies, Manhattan and Ocean Pacific were three brands in the store managers' top 10 that didn't make the consumers' top 10 list.

However, except for Dickies, which was No. 5 on the store managers' list, none of the brands on which consumers and store managers disagreed were in the top five on either list.

Among the three apparel categories, men's wear had the highest percentage—61 percent—of consumers who said they have a preference.

However, respondents shopping for men's wear were the least confident, compared to women's and children's wear shoppers, that they would find the particular brand they wanted. And men's wear shoppers were also the least tolerant if they didn't find what they wanted—55.7 percent of them said they would skip the purchase if they didn't find the brand they wanted.

Consumers shopping for men's wear had the least preference for private label apparel compared to women's and children's wear shoppers.

Consumer Brand Preferences in Men's Apparel

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Fruit of the Loom	21.1%	20.8%	18.6%	29.0%	20.8%
Levi's	18.0	17.3	18.4	10.6	15.7
Hanes	16.5	16.0	13.7	15.2	19.3
Wrangler	7.9	9.1	11.4	10.6	7.4
Lee	7.8	8.5	9.6	10.7	5.0
Arrow	7.0	6.1	10.7	5.1	5.1
Jockey	3.4	3.1	2.1	1.3	4.9
Haggar	3.0	3.4	5.6	2.6	2.9
McGregor	2.1	1.9	1.2	2.2	—
Rustler	1.7	2.0	1.2	—	2.1

Source: Discount Store News/Leo J. Shapiro & Assoc.

Top Men's Apparel Brands: Store Managers vs. Shoppers

Managers	Consumers
Lee	Fruit of the Loom
Wrangler	Levi's
Fruit of the Loom	Hanes
Hanes	Wrangler
Dickies	Lee
Levi's	Arrow
McGregor	Jockey
Rustler	Haggar
Manhattan	McGregor
Ocean Pacific	Rustler

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/Leo J. Shapiro & Assoc.

Health-Tex Most Popular in Children's Apparel

Nationwide DSN Report

When shopping for children's apparel, more discount store consumers prefer the Health-Tex brand than any other brand, according to an exclusive consumer poll conducted by Leo J. Shapiro & Associates for *DSN*.

However, overall the level of brand preference in children's wear was relatively low compared to 16 other product categories surveyed.

Only 48 percent of the consumers said they had a brand preference, the second-lowest rating of all departments.

When asked to name their preferred brand, 11.2 percent of the consumers picked Health-Tex, followed closely by Levi's and Carter, both of which were preferred by 10.3 percent of respondents.

Looking at the top three brands, the survey also revealed a disparity between the brands preferred by consumers and the brands considered to be top performers by store managers. Only Health-Tex was mentioned in the top three slots by both groups.

In children's apparel, the store managers' list of best performing brands cited Lee first, then Curity and Health-Tex (see *DSN*, Oct. 10). Lee and Curity ranked only 10th, tied with Garanimals, Gerber, Russlers, and Nike among the consumers polled.

Carter, the brand mentioned by the third-highest percentage of consumers as a preferred brand, did not make the store managers' top 10 list.

Comparing the other top brands mentioned by consumers and store managers reveals other discrepancies. Missing in the store managers' top list, but mentioned by consumers, were Pampers, Huggies, Hanes and Wrangler. Store managers named Garanimals, Spencer's and Garan to round out their top 10.

Overall, children's wear shoppers were confident they would find their desired brand at the discount store where they shopped the most. On a confidence scale of 9, with 9 being highest, consumers rated the category a 7.44 average, about the middle range of all departments surveyed.

Some 43.9 percent of the discount shoppers were certain they would find their desired children's wear brand, while 40.2 percent were sure they would find the product.

Asked what they would do if they couldn't find their preferred brand, 59.8 of the respondents said they would switch to another brand, while the remaining consumers said they would skip the purchase entirely, meaning lost sales for the discounter.

This lack of brand loyalty was one of the lowest among all of the 17 categories.

In keeping with this brand perception, a relatively high 28 percent of consumers mentioned a private label or store brand as their preferred choice in children's wear.

Consumer Brand Preference In Children's Apparel

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Health-Tex	11.2%	11.6%	11.5%	19.0%	19.4%
Levi's	10.3	11.6	11.5	9.5	6.5
Carter	10.3	10.5	15.4	11.9	6.5
Pampers	5.6	6.3	11.5	7.1	9.7
Osh-Kosh	5.6	5.3	—	4.8	6.5
Huggies	5.6	5.3	3.8	2.4	3.2
Fruit of the Loom	4.7	4.2	7.7	2.4	6.5
Hanes	4.7	4.2	3.8	2.4	6.5
Wrangler	3.7	3.2	3.8	2.4	3.2

Source: Discount Store News/Leo J. Shapiro & Assoc.

Top Children's Apparel Brands: Store Managers vs. Shoppers

Managers	Consumers
Lee	Health-Tex
Curity	Levi's
Health-Tex	Carter
Liberty	Pampers
Garanimals	Osh-Kosh
Levi's	Huggies
Spencer's	Fruit of the Loom
Fruit of the Loom	Hanes
Osh-Kosh	Wrangler

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/Leo J. Shapiro & Assoc.

Name Brand Consciousness Prevails in Cosmetics

Nationwide DSN Report

Female discount shoppers in search of cosmetics are extremely name brand-conscious and especially loyal to their preferred brand—which most often is Cover Girl.

Nearly 30 percent of women respondents to an exclusive consumer survey, conducted for *DSN* by Leo J. Shapiro & Associates, said Cover Girl is the brand they would want to buy when shopping for cosmetics in a discount department store. (The survey polled female consumers who had shopped at a discount store at least three times during the past year.)

These discriminating cosmetics consumers prefer name brands 85 percent of the time—the fifth-highest ranking among the 17 categories studied in the survey.

Closely behind Cover Girl in the eyes of cosmetics shoppers was Maybelline, with 28.9 percent of respondents naming it as their preferred brand.

Discount store managers also named those two brands most frequently as the top performing brands in their cosmetics department (see *DSN*, Oct. 10).

However, while the battle between the two brands with consumers was closely fought—with Cover Girl leading Maybelline by less than 1 percentage point—discount store managers gave Maybelline the edge over Cover Girl by a comfortable margin.

Revlon ranked third with both groups, as 20.8 percent of women shoppers named it as their preferred brand, and 31 percent of store managers mentioned it as among their top performing brands.

Rounding out the top 10 brands in terms of discount store consumers' preference were L'Oreal, Max Factor, Almay, Avon, Clairol, Coty and Cutex.

By comparison, Max Factor, Noxell, L'Oreal, Clairol, Aziza, Sally Hansen and Hazel Bishop finished fourth through 10th on the store managers' list of top performing brands.

When consumers went looking for their preferred cosmetic brand at their favorite discounter, they were confident of finding the desired name brand. On a scale of 1 to 9, with 9 meaning they were certain they would find their favorite cosmetic brand in stock, consumers rated the category an average of 7.65. This degree of confidence was the second-highest among the 17 categories surveyed.

And, it's a good thing that discount stores appear to be stocking their customers' favorite brands. According to the survey, if consumers do not find their preferred brand in stock, they are more likely to leave the store empty-handed.

The survey revealed that cosmetics had the highest brand loyalty of the 17 departments surveyed, with some 64.2 percent of the shoppers reporting that they would skip the purchase entirely if the discount store they shop did not have their desired brand in stock. Only 35.8 percent would make the switch to another brand if necessary.

The overall strength of name brands also cut into the appeal of private labels among cosmetics shoppers. Only 5.8 percent of the respondents named a private label as their preferred choice in cosmetics.

Consumer Brand Preference in Cosmetics

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Cover Girl	29.5%	31.8%	31.3%	35.4%	27.9%
Maybelline	28.9	27.8	37.5	25.0	26.2
Revlon	20.8	19.9	12.5	14.6	24.6
L'Oreal	6.9	6.6	4.2	4.2	14.8
Max Factor	4.6	4.6	—	6.3	4.9
Almay	3.5	2.6	2.1	4.2	1.6
Avon	3.5	4.0	2.1	6.3	—
Clairol	2.9	3.3	—	4.2	—
Coty	2.9	2.6	—	2.1	3.3
Cutex	2.3	2.0	2.1	2.1	1.6

Source: Discount Store News/Leo J. Shapiro & Assoc.

Top Cosmetics Brands: Store Managers vs. Shoppers

Managers	Consumers
Maybelline	Cover Girl
Cover Girl	Maybelline
Revlon	Revlon
Max Factor	L'Oreal
Noxell	Max Factor
L'Oreal	Almay
Clairol	Avon
Aziza	Clairol
Sally Hansen	Coty
Hazel Bishop	Cutex

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/Leo J. Shapiro & Assoc.

Brand Names Less Important in Women's Apparel

Nationwide DSN Report

Consumers were relatively ambivalent about having a preference for a national brand in women's apparel, but when they do make a choice their favorite brand is Lee, according to the results of a nationwide survey of discount store shoppers conducted by Leo J. Shapiro & Associates for *Discount Store News*.

Overall, discount store consumers consider brand names in women's apparel to be less important than they are in men's and children's apparel.

In fact, of 17 product categories surveyed, the lowest percentage of shoppers—only 42.2 percent—said they had a brand preference in women's apparel.

Slightly more shoppers had a brand preference in children's apparel—48 percent—while 61 percent of respondents said they had a brand preference in men's apparel.

In contrast, departments like household cleaners and photo and camera generated responses from some 96 percent of shoppers who said they had a brand preference in those categories.

For those consumers with a preference in women's apparel, Lee was mentioned by 12 percent as being the preferred brand they would buy when making a purchase at a discount store.

The next most often mentioned brand by consumers was Gitano, with 9.4 percent. In a survey of discount store managers' top performing brands (see *DSN*, Oct. 10), Gitano received the highest number of mentions, followed by Lee, among store managers polled.

However, consumers' preferences and store managers' top performers parted ways after the top two brands.

Following Lee and Gitano on the consumers' top 10 list were L'eggs, Levi's, Playtex, No Nonsense, Jaclyn Smith, Wrangler, Chic and Jordache.

Store managers, however, gave a different slant to the third through 10th positions: Jaclyn Smith, Chic, Bobbie Brooks, Wrangler, Playtex, Levi's, Cape Cod and Fruit of the Loom.

Shoppers at the four largest discount store chains held widely differing opinions of their favorite brands. For example, Lee was the preferred brand of 14 percent of Zayre shoppers (all those who shopped Zayre three times in the past year) and 10.6 percent of K mart shoppers.

But, only 8.3 percent of Target shoppers and an even lower 6.9 percent of Wal-Mart shoppers said Lee was their preferred brand in women's apparel.

When looking for their preferred brands, consumers were only fairly confident they would find their favorite women's apparel brand in a discount store. On a scale from 1 to 9, with 9 meaning customers were certain of finding a brand and 1 meaning they felt it was unlikely they would find the brand, women's apparel scored a 6.99 average rating. The only two categories which received a lower rating in terms of shoppers being confident about finding their preferred brands were sporting goods and men's apparel.

If consumers were unable to find the women's apparel brand of their choice, 54.7 percent said they would switch to another brand, while 45.3 percent said they would forgo making the purchase entirely. This brand loyalty was one of highest of the categories surveyed, ranking just behind cosmetics.

Customers appear to have a high receptiveness to private label in this category. About 30 percent of the respondents said they would choose a private label brand in women's apparel.

This private label rating was the highest among all 17 categories in the survey, reflecting the high number of private label products available in the department.

Top Women's Apparel Brands: Store Managers vs. Shoppers

Managers	Consumers
Gitano	Lee
Lee	Gitano
Jaclyn Smith	L'eggs
Chic	Levi's
Bobbie Brooks	Playtex
Wrangler	No Nonsense
Playtex	Jaclyn Smith
Levi's	Wrangler
Cape Cod	Chic
Fruit of the Loom	Jordache

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/Leo J. Shapiro & Assoc.

Consumer Brand Preferences In Women's Apparel Department

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Lee	12.0%	10.6%	6.9%	14.0%	8.3%
Gitano	9.4	10.6	6.9	16.3	2.8
L'eggs	7.7	8.7	10.3	7.0	13.9
Levi's	6.0	4.8	13.8	4.7	5.6
Playtex	6.0	4.8	6.9	11.6	5.6
No Nonsense	4.3	4.8	6.9	2.3	2.8
Jaclyn Smith	3.4	3.8	6.9	4.7	2.8
Wrangler	2.6	2.9	—	2.3	5.6
Chic	2.6	2.9	—	2.3	5.6
Jordache	2.6	1.9	—	—	2.8

Source: Discount Store News/Leo J. Shapiro & Assoc.

Top Brands
Home Products

PART II: CONSUMER SURVEY

Brand Loyalty Is Pronounced in Household Cleaners

Consumer Brand Preferences In Household Cleaners

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Tide	23.3%	22.9%	21.7%	27.4%	23.9%
Comet	18.4	18.5	19.8	19.8	23.1
Lysol	11.5	11.8	13.2	10.4	7.7
Windex	11.2	10.8	13.2	8.5	13.7
Pine-Sol	10.1	10.1	7.5	10.4	11.1
Ajax	9.2	8.8	5.7	8.5	12.8
Ivory	8.6	9.1	6.6	10.4	6.8
Dawn	8.4	9.4	11.3	8.5	11.1
Clorox	6.3	6.1	9.4	4.7	4.3
Colgate-Palmolive	5.5	5.7	4.7	5.7	5.1

Source: Discount Store News/Leo J. Shapiro & Assoc.

Nationwide DSN Report

When it comes to household cleaning products, consumers demand nationally known products over private label goods, according to an exclusive study of consumer brand preferences conducted by Chicago-based Leo J. Shapiro & Associates for *DSN*.

Moreover, the study reported that half the respondents would rather skip the purchase entirely than purchase an alternative product if their preferred brand was not available at the discount store they shop.

With the exception of the photo/camera category, more consumers reported a brand preference in household cleaners and detergents than in any of the other categories considered in the poll. Ninety-six percent of the respondents to the survey said they had a brand preference in household cleaners.

The largest percentage of consumers named Tide as the brand they prefer when shopping for household cleaners at a discount store. According to the survey, the next most often preferred brands were Comet, Lysol, Windex, Pine-Sol, Ajax, Ivory, Dawn, Clorox and Colgate-Palmolive.

These product preferences varied somewhat from the discount store managers' list of top performing brands in the household cleaner category.

Store managers did give Tide the top spot on their brands survey (see *DSN*, Oct. 10), but the rest of their top 10 list included Windex, Clorox, Fantastic, Cheer, Lysol, Downey, Comet, Purex and Formula 409.

The consumers surveyed were fairly confident that they will find their preferred brands when shopping at a discount store.

Only in the categories of health and beauty aids, photo/camera and candy/snacks were consumers more certain of finding their preferred brands than those shopping for household cleaning products.

The survey also revealed that consumers are finicky about buying specific brands. Only 4 percent of the consumers surveyed expressed an interest in private label goods in this category. In addition, half the shoppers surveyed said they would forgo the purchase if they can't find the exact brand they want.

Top Household Cleaner Brands: Store Managers vs. Shoppers

Managers	Consumers
Tide	Tide
Windex	Comet
Clorox	Lysol
Fantastic	Windex
Cheer	Pine-Sol
Lysol	Ajax
Downey	Ivory
Comet	Dawn
Purex	Clorox
Formula 409	Colgate-Palmolive

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)?' and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/Leo J. Shapiro & Assoc.

Shoppers Like Wide Variety of Housewares Brands

Nationwide DSN Report

Discount stores could lose nearly one-third of their housewares customers if they are not responsive to the brand preferences of those shoppers, according to an exclusive consumer study conducted by Leo J. Shapiro & Associates for *DSN*.

Fortunately for discounters, the study also reveals that, for the most part, discount store assortments closely mirror the items their customers want. Eighty-five percent of shoppers surveyed said they are either positive or fairly confident of finding the housewares brand they want at the discount store they shop at most frequently.

About 65 percent of discount department store customers have some sort of brand preference when shopping for housewares (about the middle of the pack for the 17 departments surveyed), while the other 35 percent are indifferent to which manufacturer produced the housewares merchandise.

Of the brand-sensitive majority, however, half (or about one-third of all housewares shoppers) would not switch to another brand if the store did not offer the specific label desired. They said they would skip the purchase entirely if their preferred brand was not in stock at the store.

The study also revealed a fairly high degree of agreement between consumers and discount store managers on the top housewares brands. Of the top 10 brands mentioned by both groups of respondents (see *DSN*, Oct. 10), six brands showed up on both lists.

However, unlike the store managers surveyed, the consumers' preferences for individual brands was much more broadly based. That is, consumers named a lengthy laundry list of labels among the preferred choices, while store managers tended to concentrate their responses among the few top brands.

Rubbermaid was the brand named by discount store consumers as their preferred brand followed by General Electric and Corning. The store managers named Rubbermaid and Corning's Corelle as their top performers.

GE's high rate of mentions as a preferred brand is intriguing because it has been about three years since Black & Decker bought GE's small electric housewares business and converted the GE label to Black & Decker. Consumers were probably responding more to the overwhelming awareness of one of the world's largest conglomerates rather than to a particular housewares product.

Indicative of the broad-based support given to a large number of housewares brands is the fact that most of those mentioned by consumers received only about 2 percent of total mentions.

Furthermore, nearly 37 percent identified brands which individually did not garner more than 0.2 percent of consumer mentions.

These figures underscore the difficult task housewares buyers face of fitting numerous brands consumers demand within the finite boundaries of their housewares departments.

Only 8.5 percent of discount store shoppers named a private or store label as their preferred choice in the housewares department.

Consumer Brand Preferences in Housewares

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Rubbermaid	14.6%	16.2%	11.9%	14.0%	13.6%
General Electric	12.8	12.8	9.9	15.8	11.0
Corning	9.9	9.9	10.5	6.7	8.6
Cannon	5.7	6.1	8.3	7.3	2.8
Corelle	5.1	5.4	6.3	3.9	6.1
Ecko	4.0	4.8	3.6	5.4	3.5
Visions	3.5	3.5	4.7	3.4	4.1
Sunbeam	3.3	2.9	1.0	1.7	3.3
Black & Decker	3.0	3.3	1.1	3.3	3.8
Libbey	2.8	3.1	3.5	3.5	3.0

Source: Discount Store News/Leo J. Shapiro & Assoc.

Top Housewares Brands: Store Managers vs. Shoppers

Managers	Consumers
Rubbermaid	Rubbermaid
Corelle	General Electric
Visions	Corning
Corning	Cannon
Black & Decker	Corelle
Proctor Silex	Ecko
Ecko	Visions
SilverStone	Sunbeam
Revere	Black & Decker
Regal	Libbey

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)?' and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/Leo J. Shapiro & Assoc.

Cannon Tames Rival Brands in Domestics Category

Nationwide DSN Report

Cannon, the clear-cut choice of discount store managers as the top performing brand name in discount domestics departments, was even more popular with consumers, a study conducted by Leo J. Shapiro & Associates for *DSN* revealed.

Almost two-thirds of discount store domestics shoppers surveyed said that Cannon is their preferred brand. By comparison, 53 percent of store managers named Cannon as the top performing brand (see *DSN*, Oct. 10).

The runner-up among shoppers was Cannon's sister brand, Fieldcrest, with a little over 5 percent of mentions, giving the pair almost 70 percent of the total mentions.

J.P. Stevens, which finished second in the poll of discount store managers, finished third among consumers, with 4.7 percent of brand mentions. However, inclusion of its allied Tastemaker brand would have lifted it into second, with about 6 percent of mentions. Martex (4.1 percent) and St. Mary's (3.5 percent) rounded out the top five brands among consumers.

Results of the consumer poll were similar to the recent poll of discount store managers, with seven brands listed on both groups' top lists.

Except for J.P. Stevens, which received nearly 20 percent of managers' mentions vs. 5 percent of consumer mentions, and Fieldcrest, which performed better among consumers than among managers, the lists were very similar, indicating that discount store managers have a good grip on what consumers are looking for in the domestics department.

Rounding out the consumer top list were Pepperell, Burlington, Santa Cruz, Dan River, and Tastemaker and Spring Maid tied for 10th place.

Overall, domestics shoppers were only moderately certain of being able to find their favorite brand at their local discount store. Only 42 percent said that they were "certain" of finding their brand; a relatively high 20 percent said they were "unsure."

Overall, on a 1 to 9 scale of certainty ("9" equals "sure") domestics shoppers scored a mean of 7.36, which compares to a high mean of 7.99 in the H&BA department and a low of 6.79 in sporting goods.

However, domestics shoppers were better-than-average bets to either switch brands or to purchase private label goods. Asked if they would forgo a purchase if their favorite brand was unavailable at their discount store, 65 percent said that they would switch to another label.

With the exception of the stationery department, where consumers will evidently switch brands more quickly (67 percent), domestics had the highest figure among all 17 departments surveyed.

Domestics shoppers were also among the most open to buying store brands of merchandise. Nearly 15 percent said that they had a preference for private label goods, the third-highest total among all departments (women's and children's apparel, at 29 and 28 percent, respectively, led the pack by wide margins).

Top Domestics Brands: Store Managers vs. Consumers

Managers	Consumers
Cannon	Cannon
J.P. Stevens	Fieldcrest
Pepperell	J.P. Stevens
St. Mary's	Martex
Springs/Spring Mills	St. Mary's
Kenney	Pepperell
Fieldcrest	Burlington
Dan River	Santa Cruz
Graber	Dan River
Newell	Tastemaker
Santa Cruz	Spring Maid

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)?' and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumer Brand Preference In Domestics Department

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Cannon	64.3%	61.5%	73.7%	66.0%	57.4%
Fieldcrest	5.3	4.7	1.8	5.7	11.1
J.P. Stevens	4.7	5.4	7.0	5.7	7.4
Martex	4.1	4.1	3.5	1.9	3.7
St. Mary's	3.5	3.4	1.8	5.7	3.7
Pepperell	3.5	3.4	1.8	7.5	1.9
Burlington	1.8	2.0	—	3.8	1.9
Santa Cruz	1.2	1.4	1.8	1.9	1.9
Dan River	1.2	1.4	1.8	—	—
Tastemaker	1.2	1.4	—	1.9	—
Spring Maid	1.2	1.4	1.8	—	3.7

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Discount Shoppers Name GE as Top CE Brand

Consumer Brand Preference In Consumer Electronics

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
General Electric	19.7%	20.6%	17.0%	13.6%	13.6%
Sony	15.7	15.5	10.6	20.3	18.2
Panasonic	14.6	13.5	12.8	13.6	10.6
Sharp	9.6	10.3	14.9	13.6	3.0
RCA	7.3	8.4	14.9	6.8	10.6
Zenith	7.3	7.7	6.4	11.9	9.1
Nintendo	4.5	5.2	8.5	8.5	7.6
Apple	3.9	3.2	2.1	3.4	1.5
Emerson	3.4	3.2	4.3	3.4	4.5
TDK	3.4	3.9	6.4	1.7	7.6

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Nationwide DSN Report

General Electric, which finished second to Emerson in a recent poll of discount store managers' top performing brands, appears to be more popular with consumers. The Fairfield, Conn.-based electronics giant was the most-mentioned brand in a survey of consumer shopping preferences conducted for *DSN* by Leo J. Shapiro & Associates.

GE received almost 20 percent of the total preference mentions of the consumers polled compared to 15.7 percent for runner-up Sony. Nearly 15 percent of the consumers preferred Panasonic, placing the company third on the top 10 list of consumer brands. Sharp (9.6 percent) finished fourth, with RCA and Zenith tying for fifth. Nintendo, Apple, Emerson and TDK rounded out the top 10.

The results of the survey closely matched the poll of discount store managers (see *DSN*, Oct. 10), with the two groups agreeing on eight of the top 10 brand names. Store managers, who were asked to name their best performing brands in the consumer electronics department, mentioned GoldStar and Magnavox over Apple and TDK.

In order to build its name recognition, Magnavox recently implemented a record $50 million national consumer advertising campaign.

GoldStar is also involved in a marketing strategy to to upgrade its image among consumers. The company has introduced higher-end products and has widened its product offering while maintaining low price points, which may in part explain its popularity with store managers.

Emerson, which won the store manager poll, finished only ninth among consumers.

Compared to other departments, consumers were relatively unsure about finding the products they want at their local discounters.

About eight of 10 consumers expressed some sort of brand preference, but only about one-third of them were "certain" that they could find their preferred brand at their regular discount store. Another 44 percent were relatively sure they could find it, however, and a little under 20 percent weren't sure at all.

By comparison, some 60 percent of photo/camera shoppers were "certain" they could find a preferred brand, nearly twice the CE rating. The only category with a lower "certain" rating was men's apparel, at 32 percent.

Asked to rate their degree of confidence in finding their preferred name brand at the discount store they shop, consumers gave consumer electronics a mean rating of 7.08 (on a scale of 1 to 9), which ranked only 14th among the 17 departments surveyed.

In what appears to be bad news for discounters who don't carry the top brands, CE shoppers were also significantly less likely than consumers in other departments to either switch brands or to buy private label products.

A mere 3.4 percent of CE shoppers said that they would accept a private label brand in consumer electronics, the third-lowest percentage in the 17 departments under consideration.

Similarly, only 42 percent of consumers indicating a consumer electronics brand preference said that they would switch brands rather than forgo a purchase altogether. While CE is not far off the average, only one other category, cosmetics (36 percent), showed little inclination to substitute other brands.

The bottom line appears to be that CE shoppers are very concerned with quality, and with the proliferation of brands available in the market (particularly at the discount end), they equate quality with a well-known brand name.

Top Consumer Electronics Brands: Store Managers vs. Consumers

Managers	Consumers
Emerson	General Electric
General Electric	Sony
GoldStar	Panasonic
RCA	Sharp
Panasonic	RCA
Sony	Zenith
Nintendo	Nintendo
Sharp	Apple
Magnavox	Emerson
Soundesign	TDK

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Kodak Develops Wide Appeal Among Consumers

Consumer Brand Preferences In Photo/Camera Department

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Kodak	83.7%	84.0%	85.4%	79.8%	86.9%
Fuji	9.2	8.9	11.7	6.4	5.7
Polaroid	7.7	8.2	11.7	5.3	7.4
Canon	3.9	3.9	3.9	3.2	2.5
Duracell	3.6	3.9	1.9	6.4	3.3
Eveready	2.1	2.1	1.9	3.2	1.6
Sony	1.8	1.4	—	3.2	1.6
Sylvania	1.2	1.4	1.0	2.1	—
Scotch/3M	1.2	1.4	2.9	2.1	—
Memorex	1.2	1.4	—	1.1	1.6

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Nationwide DSN Report

While Kodak is a strong brand among discount store managers, the brand is even more dominant among consumers, an exclusive study conducted by Leo J. Shapiro & Associates for *DSN* found.

Nearly 84 percent of consumers with a brand preference named Kodak among the brands they favored. This was over nine times the rating given by consumers to second place Fuji.

The study, which interviewed consumers who shop at discount stores regularly (three or more times a year), is a companion piece to *DSN*'s Top Brands Survey of discount store managers, which polled the managers about which brands performed best in each of 17 discount departments (see *DSN*, Oct. 10).

Fuji, with just under 10 percent of mentions, was almost as popular, in comparative terms, with consumers as with discount store managers. According to the poll, 9.2 percent of consumers mentioned Fuji as a preferred brand, against 9.3 percent of managers who identified the brand as a top performer.

However, relative to brands other than Kodak, Fuji received more mentions by consumers than by discounters. In the poll of store managers, the brand finished fifth; among consumers, it finished second, slightly ahead of Polaroid, which finished second among store managers.

Consumers who had shopped at a Wal-Mart within the last year gave Fuji its best rating (11.7 percent), something of a surprise since Wal-Mart two years ago dropped all Fuji products in pursuit of its "Buy American" strategy. Polaroid also did better (11.7 percent) among Wal-Mart shoppers than among shoppers at other chains.

Kodak was the most popular brand among Target shoppers (86.9 percent) and exhibited slightly less dominance among Zayre customers (79.8 percent), a remarkably consistent showing overall.

Fuji, in contrast to its preference among shoppers at Wal-Mart, was less popular with Target shoppers.

Canon, which finished third among store managers (with 19 percent of them mentioning the brand), was fourth in consumer preference, with 3.9 percent of the total mentions.

Of the remaining CE brands, only battery makers Duracell (fifth) and Eveready (sixth) gained more than 2 percent of consumer mentions.

Photo shoppers seemed to be very confident that they would find their preferred brand at local discount stores. Nearly 60 percent said they were "certain" they could find the brand, with another 28 percent saying they were pretty sure.

Other than the H&BA category, photo received the highest overall rating among discount departments, with a 7.89 mean level of certainty (on a scale of 1 to 9, with 9 meaning "certain"). However, photo consumers were more likely than any others to be "certain" of finding their preferred brands at discounters.

Photo consumers are also very open to switching brands. Asked if they would forgo a purchase if the brand they preferred wasn't available, 43 percent said they would buy another brand. Overall, consumers were more likely to switch brands in only five other categories, led by stationery (67 percent).

Predictably, the photo category scored second lowest (just above toys) in preference for private label products (3 percent, compared to a high of 29 percent in women's apparel). Consumers have very strong brand preferences, and while they might be willing to switch to another well-known brand, private labels seem to have very little appeal.

When speaking of brand-switching in the photo department, the obvious reference point is Kodak, and more particularly Kodak film. The brand is dominant, but the large number of consumers who indicated they might be willing to switch indicates that other brands, most notably Fuji, have a chance to make further inroads in the market.

Top Photo/Camera Brands: Store Managers vs. Shoppers

Managers	Consumers
Kodak	Kodak
Polaroid	Fuji
Canon	Polaroid
Minolta	Canon
Fuji	Duracell
Scotch/3M	Eveready
Duracell	Sony
Pentax	Sylvania
Nikon	Scotch/3M
Keystone	Memorex

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)?' and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?'

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumers Are Willing to Find Substitute Brands

Nationwide DSN Report

While Clairol and Conair were named as top brands among consumers shopping discount stores for personal care appliances, few shoppers have any qualms about switching to another national name brand if their preferred brand is not available.

In an exclusive study of consumer brand preferences, conducted by Leo J. Shapiro & Associates for *DSN*, approximately 69 percent of discount store consumers expressed a preference for a national brand in the personal care appliance category.

However, 55.1 percent said they would find a substitute brand if their first choice was not available in the store, and 44.9 percent would skip the purchase. Only 3.9 percent said they would prefer a discounter's own line or a private label personal care appliance.

Survey results revealed a tendency for consumers to shy away from buying private label products in categories where the key features of the product cannot be ascertained from simply looking at the item or reading the product label, as is true of most electrically operated merchandise like consumer electronics and personal care appliances.

Conair had been singled out as the personal care department performance leader by discount store managers (see *DSN*, Oct. 10), but Clairol was the most often preferred brand among consumers.

As in housewares, the General Electric brand continues to be a top performer despite the fact that the brand name has not existed since Black & Decker bought the company's appliance division about three years ago. GE received the third-highest percentage of mentions from consumers as a preferred brand. Store managers, presumably more aware of brand availability, placed GE seventh on their list of best performing brands.

Consumers said they are generally confident about finding the brand of personal care appliance they prefer in a discount store. More than eight out of 10 consumers said they were "certain" or "sure" of finding their brand, giving the category a mean rating of 7.46 on a scale of 1 to 9 (with 9 meaning "certain").

Of the 17 departments studied, only four other departments exhibited both a high willingness to switch to another brand and a high confidence of finding the brand: candy and snacks, household cleaners, housewares and children's apparel. In all these categories, discount shoppers are both confident of finding their favorite brand and have few qualms about switching to another brand if their preferred brand is not available.

The results suggest that it should be relatively easy to satisfy the personal care appliance shopper. Brand preference is dominated by the top five brands, with only about 15 percent preferring a brand other than those listed on the consumers' top 10 list.

Consumer Brand Preferences In Personal Care Appliances

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Clairol	26.0%	25.0%	32.3%	13.3%	40.0%
Conair	23.6	24.0	16.1	23.3	20.0
General Electric	12.6	12.5	12.9	13.3	13.3
Vidal Sassoon	11.0	10.6	12.9	10.0	17.8
Norelco	10.2	9.6	3.2	16.7	6.7
Gillette	6.3	5.8	3.2	6.7	4.4
Windmere	3.1	3.8	—	6.7	4.4
Schick	3.1	1.9	3.2	6.7	—
Remington	3.1	3.8	6.5	3.3	4.4
Goody	3.1	3.8	6.5	—	2.2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Personal Care Appliance Brands: Store Managers vs. Shoppers

Managers	Consumers
Conair	Clairol
Clairol	Conair
Windmere	General Electric
Vidal Sassoon	Vidal Sassoon
Norelco	Norelco
Remington	Gillette
General Electric	Windmere
Black & Decker	Schick
Sunbeam	Remington
Jerri-Redding	Goody

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)?' and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?'

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Brands Hard Lines

PART II: CONSUMER SURVEY

Mattel Leads Toy Brands in Consumer Preference

Top Toy Brands: Store Managers vs. Shoppers

Managers	Consumers
Fisher-Price	Mattel
Mattel	Fisher-Price
Playskool	Tonka
Milton Bradley	Hasbro
Hasbro	Coleco
Little Tikes	Milton Bradley
Coleco	Playskool
Kenner	Lesney/Matchbox
Parker Bros.	Parker Bros.
Huffy	LEGO

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Nationwide DSN Report

Mattel was the toy department name brand preferred by the largest percentage of discount store shoppers in a just-completed survey of consumer brand preferences. Fisher-Price ranked second on consumers' top 10 list of name brands, according to the survey conducted by Leo J. Shapiro & Assoc. for *DSN*.

The consumer ranking reverses the order of top performers that store managers gave brands in the toy department. In a survey conducted among store managers, Fisher-Price received the largest number of mentions as a best performing brand in the department, followed by Mattel (see *DSN*, Oct. 10).

Tonka, parent of Kenner and Parker Bros., was a strong third among consumers while ranking No. 11 among store managers.

Those are the major differences between the rankings of top brands by consumers as compared to the top rankings by discount store managers.

Among those who had shopped at least three times during the past year at discounters, 29 percent named Mattel as their preferred brand, compared to 24 percent that named Fisher-Price.

To the contrary, Fisher-Price received 54 percent of manager mentions, while Mattel received 30 percent of manager mentions.

And 11 percent of shoppers said Tonka was their favorite brand, compared to 3 percent of store managers who said it was a best performing brand in their stores.

The survey also showed that consumers are demonstrating a greater degree of loyalty than store managers to Coleco, as it struggles in Chapter 11 bankruptcy. Among consumers, 9 percent said it was their preferred brand, putting it No. 5 on the Top 10 chart. Managers, however, ranked it No. 7, down from No. 4 in 1987.

Consumers also gave top 10 billing to Lesney/Matchbox, No. 8, with 5 percent saying it was their preferred brand, and to LEGO, No. 10, with a 4 percent response.

Toy shoppers showed a strong preference for national brands, with 77 percent expressing such a preference.

Given the advertising-driven nature of the toy business, it should come as no surprise that shoppers take a dim view of private label toys. Only 1 percent said they prefer a private label toy.

Almost half, 48 percent, said they were "certain" that they would find the brands they want in their discount stores, while 34 percent more said they were "sure" their brands would be in stock.

In the survey, shoppers displayed a tenuous loyalty to their brands, however, with 49 percent saying they would switch to another brand if their favorite was out-of-stock, while 51 percent said they would skip the purchase.

Consumer Brand Preferences in Toy Department

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Mattel	28.5%	27.5%	25.5%	26.7%	20.5%
Fisher-Price	23.7	23.4	23.5	20.0	24.7
Tonka	10.8	10.1	11.8	6.7	9.6
Hasbro	10.8	12.0	17.6	8.3	9.6
Coleco	9.1	9.5	9.8	11.7	11.0
Milton Bradley	8.1	8.2	3.9	6.7	8.2
Playskool	5.9	5.7	5.9	5.0	6.8
Lesney/ Matchbox	5.4	5.7	3.9	8.3	5.5
Parker Bros.	4.3	4.4	—	6.7	2.7
LEGO	4.3	3.8	3.3	3.3	4.1

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Pennzoil Takes Pole Position in Automotive Brands

Nationwide DSN Report

To a remarkable degree, discount store shoppers agreed with store managers about top brands in the automotive aftermarket, with eight out of 10 top brands appearing on both top 10 lists and in close to the same order of ranking. These findings were revealed in a study conducted by Leo J. Shapiro & Associates for *DSN*.

The top three on the managers' list were the same among consumers, Pennzoil, Quaker State and Fram, respectively. Discount store managers were asked to name their best performing brands in the department (see *DSN*, Oct. 10).

Along with managers, consumers, asked to name the brand they prefer to buy, also put Armor All into the Top 10.

Where they differed: consumers listed Turtle Wax as No. 4 among their top 10 brands, whereas it slipped off the managers' top 10 list.

And consumers stuck with another well-known brand, AC-Delco, in stating their preferences, whereas it too dropped off the managers' list.

In other differences, managers named Havoline and Prestone among their top 10 brands. But, consumers put Prestone No. 11 in their top brands preferences and Havoline came out No. 15. For each brand, 2 percent of consumers surveyed said it was their favorite brand.

Rain Dance, which Armor All bought recently from Borden, came in No. 16 on the list of consumer preferences. About 1 percent of consumer respondents named Rain Dance as their favorite.

Among consumers surveyed, 26 percent listed Pennzoil as their preferred brand, compared to 22 percent for Quaker State. In contrast, managers favored Pennzoil by a slight margin, 30 percent to 29 percent for Quaker State.

Seventy-eight percent of shoppers surveyed expressed a brand preference. A significant number, 12 percent, named a private label or store brand as their preferred choice in the department.

Consumers also expressed a high degree of confidence that their discounters would have their preferred brands in stock. Forty percent said they were "certain" they would find their favorite in stock, while 37 percent more said they were "sure" they'd find their favorite brand in stock.

Consumers also indicated a strong loyalty to their brands. Asked what they would do if their top brands were out-of-stock, 57 percent said they would skip the purchase, while only 42 percent said they would switch brands.

Consumer Brand Preferences in Automotive Department

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Pennzoil	26.0%	24.5%	22.9%	25.2%	28.6%
Quaker State	21.9	22.8	22.4	26.3	20.6
Fram	11.2	11.0	16.4	10.1	13.6
Turtle Wax	8.7	8.3	9.8	11.7	4.2
Valvoline	8.2	8.8	9.0	6.9	10.2
AC-Delco	7.5	7.8	8.8	9.7	7.2
Champion	5.4	5.7	3.7	6.7	6.8
Castrol	4.2	4.6	2.9	5.7	3.3
STP	2.8	2.7	2.5	2.9	2.0
Armor All	2.4	2.2	3.6	3.5	2.0

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Automotive Brands: Store Managers vs. Shoppers

Managers	Consumers
Pennzoil	Pennzoil
Quaker State	Quaker State
Fram	Fram
Havoline	Turtle Wax
Prestone	Valvoline
Valvoline	AC-Delco
STP	Champion
Castrol	Castrol
Armor All	STP
Champion	Armor All

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumer Brand Preferences in Hardware

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Stanley	20.2%	20.6%	21.0%	25.0%	10.3%
Black & Decker	18.6	19.9	24.7	20.0	13.5
General Electric	10.6	11.6	11.5	7.8	17.1
Glidden	7.0	6.2	8.5	12.0	8.0
Duracell	2.0	1.9	1.2	0.0	3.7
Master Lock	0.8	0.9	0.0	1.2	2.4
Homelite	0.6	0.8	2.0	0.0	0.0
Olympic Paint	0.4	0.5	1.2	0.0	1.2
Red Devil	0.4	0.0	0.0	1.3	0.0
Yale	0.4	0.5	0.0	0.0	0.0

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumer Brand Preference Low, But Favorites Retain Loyal Following

Nationwide DSN Report

Consumers appear to have a split personality when shopping for hardware in a discount department store, according to an exclusive survey conducted for *DSN* by Leo J. Shapiro & Associates.

On the one hand, only about half—55 percent—said they had a brand preference when shopping for hardware products. But, of those that have a brand preference, more than half would skip their planned purchase entirely if that brand isn't on the shelf at their favorite discount department store.

The only departments in the survey to record a lower degree of brand preference among consumers were domestics and children's and women's apparel. However, the hardware department ranked right up there with consumer electronics, automotive supplies, photo and camera, and men's apparel—all fairly high brand-oriented departments—in the number of consumers who would skip the purchase entirely if the preferred brand was not in stock.

Shoppers reported that Stanley and Black & Decker are the name brand products they look for most often when shopping for hardware items at discount stores. Those two brands were also mentioned most often by store managers who were asked to name their best performing brands in the hardware department (see *DSN*, Oct. 10).

At the nation's four largest discount store chains, consumers reported strong brand preferences for the top four labels in the consumer survey, but to varying degrees.

Stanley, for example, was named most often by K mart and Zayre shoppers as the hardware brand they would prefer to buy. Wal-Mart shoppers look for the B&D brand most often and Target shoppers seek out General Electric products more often than others on the top 10 list.

Top Hardware Brands: Store Managers vs. Shoppers

Managers	Consumers
Stanley	Stanley
Black & Decker	Black & Decker
Lucite	General Electric
Glidden	Glidden
Dutch Boy	Duracell
General Electric	Master Lock
Royal	Homelite
Red Devil	Olympic Paint
Olympic Paint	Red Devil
Vermont American	Yale

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)?' and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/ *Leo J. Shapiro & Assoc.*

The most brand-conscious shoppers of the four discounters are Zayre customers, according to the survey. Sixty-four percent of Zayre shoppers reported they have a brand preference when shopping for hardware, compared to 57.6 percent of Wal-Mart shoppers and 54.8 percent of K mart shoppers.

Target shoppers are the least brand conscious of the four discounters, with 52.7 percent of the shoppers reporting they have a brand preference when shopping for hardware at discount stores. After the top two brands, however, consumers' preferred brands differed dramatically with store managers' best performers.

For consumers, the hardware brands most preferred when shopping at discounters

(Continued on page 69)

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Hershey's Nabs Sweet Victory in Consumer Survey

Nationwide DSN Report

Hershey's is the brand the largest number of consumers look for when shopping for food and snack products at discount stores, according to results of a nationwide survey of consumers' brand preferences conducted for *DSN* by Leo J. Shapiro & Associates.

Consumers are very confident that they will find Hershey's and their other preferred brands of foods, candy and snacks when they shop discounters, the survey also revealed.

Interestingly, Hershey's was also named by the largest percentage of store managers who were asked to name their best performing brands in the food, candy and snack category (see *DSN*, Oct. 10).

The two groups appeared to agree on little else, however.

Consumers' top 10 preferred brands were Hershey's, Brach's, Snickers, M&M, Planters, Frito-Lay, Jays, Mars, Milky Way and Standard Brands.

Store managers' top 10 performers, in order, were Hershey's, Snickers, M&M, Planters, Brach's, Frito-Lay, Mars, Sather, Milky Way and Nabisco.

Candy, food and snack preferences varied even more dramatically among consumers who shop at the nation's four largest discount chains: K mart, Wal-Mart, Zayre and Target.

K mart customers (i.e., respondents who said they shopped K mart during the past year) best match the overall pattern of top performers mentioned by K mart store managers, with only a few exceptions.

However, the difference between what shoppers of discount stores said they look to buy and what store managers reported as their top performers differed dramatically at the other three chains.

For example, at Wal-Mart, Snickers was mentioned more often by consumers as the food brand they want when shopping at the Arkansas-based discounter. Hershey's came in second on the list followed by Brach's, Planters, Frito-Lay, Jays, Mars, M&M, Milky Way and Standard Brands.

However, the largest percentage of Wal-Mart store managers mentioned Frito-Lay as among their top performing brands in this category, followed by Little Debbie, Brach's, Ocean Spray, Nabisco, Mars, Planters, Snickers, Hershey's and Sather.

Target shoppers also named Hershey's as their most preferred brand in the category, followed by M&M, Brach's, Snickers, Planters, Frito-Lay, Jays, Mars and Milky Way.

Target store managers provided a substantially different ranking when asked to name their top performers. Planters topped the Target managers' list, followed by M&M, Frito-Lay, Mars, Snickers, Hershey, Shari, Fisher, Pringles, Brach's and Milky Way.

Despite the disparities between consumer preferences and store managers' top performers, shoppers are fairly confident they will find the brand they want when shopping in discounters. In fact, of the 17 merchandise categories reviewed, candy and snacks was given the third-highest confidence rating, behind toiletries (health and beauty aids) and photo/camera.

(Continued on page 69)

Top Food, Candy & Snacks Brands: Store Managers vs. Shoppers

Managers	Consumers
Hershey's	Hershey's
Snickers	Brach's
M&M	Snickers
Planters	M&M
Brach's	Planters
Frito-Lay	Frito-Lay
Mars	Jays
Sather	Mars
Milky Way	Milky Way
Nabisco	Standard Brands

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)?' and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?'

Source: Discount Store News/ Leo J. Shapiro & Assoc.

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SALE
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Consumer Brand Preferences in Food, Candy & Snacks

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target	Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Hershey's	19.0%	18.5%	14.4%	22.2%	20.1%	Jays	5.7%	6.2%	7.6%	12.4%	7.4%
Brach's	12.3	12.1	12.0	13.4	13.1	Mars	5.7	5.8	5.9	4.5	5.5
Snickers	12.0	12.6	17.1	12.4	11.9	Milky Way	3.9	4.1	3.1	5.7	2.6
M&M	11.2	10.4	4.3	9.5	13.2						
Planters	9.0	8.4	9.5	11.5	9.0	Standard Brands	3.3	3.7	1.7	2.4	0.0
Frito-Lay	8.6	9.5	8.2	5.7	8.7						

Source: Discount Store News/Leo J. Shapiro & Assoc.

Sweet Victory for Hershey's; Brand Takes Top Honors

(Continued from page 68)

Food is such a brand-specific category that consumers expressed little preference for private label goods. Only household cleaners, personal care appliances, CE, photo/camera and toys received less support for private label products in the consumer survey.

But consumers aren't particularly loyal to specific brands. Consumers reported that if their discounter doesn't have the food brand they want, they will switch brands. There is not a high penalty to the discount store if it is not carrying one of the preferred brands. Only 41 percent said they would skip the purchase, a figure higher than only children's apparel and stationery and cards. In essence, if a discounter doesn't have one brand, the consumer is more likely to take home another brand than none at all.

Brand Preference Low in Hardware, But Loyalty High

(Continued from page 62)

are, in order, Stanley, B&D, GE, Glidden, Duracell, Master Lock, Homelite, Olympic Paint, Red Devil and Yale.

Store managers said their top performing hardware brands are Stanley, B&D, Lucite, Glidden, Dutch Boy, GE, Royal, Red Devil, Olympic Paint and Vermont American.

Vermont American and Lucite ranked 11th and 12th, respectively, on the consumer survey, followed by Fuller Brush and Hersh. Royal and Dutch Boy weren't mentioned by consumers in the survey.

Hardware shoppers, like customers looking for products in the 16 other departments surveyed, reported being fairly confident about finding the brand name product they want in a discount store. Asked to rate their level of confidence on a scale of 1 to 9 (with 1 being the least confident and 9 meaning they were sure of being able to find their preferred brand), consumers gave discounters' hardware departments a grade of 7.19.

But, in comparison to other departments surveyed, hardware shoppers were less confident about finding a specific brand. Hardware fared better than only stationery and cards, CE, women's and men's apparel, and sporting goods in this measure of confidence.

Even though consumers are relatively less certain about being able to find their favorite hardware items in a discount store, they show a high preference, compared to the other categories, of using a private label brand.

Twenty-five percent of the shoppers said they did have a preference for private label hardware products, higher than all other departments except women's apparel and children's apparel.

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IBM The Bigger Picture

Sporting Goods Shoppers Are Less Likely to Insist on Specific Brands

Nationwide DSN Report

When it comes to sporting goods, consumers' top brand preferences vary significantly at some points from store managers' views of their best performing products.

Moreover, shoppers are less brand conscious when it comes to sporting goods than for several other hard goods categories, and less loyal to their chosen top brand, according to an exclusive survey conducted by Leo J. Shapiro & Associates for *DSN*.

Coleman, for instance, was named most often as a top performing brand by managers for the past four years and lost by a hair this year to Wilson (see *DSN*, Oct. 10). But as far as consumers were concerned, they think far less of Coleman as a top brand when shopping at discount stores.

Wilson came out strongly on top in the consumer survey, with 19 percent of all shoppers ranking it as their top choice, or three times as many as did for Coleman, 6 percent. One possible explanation is that many consumers may not associate the Coleman name with sporting goods, per se. Many Coleman products, like coolers, stoves, lanterns, etc., are not thought of as strictly sporting goods.

Another significant difference is that consumers have come to consider Nike and Reebok shoes as "sporting goods" brands. In contrast, discount store managers, who normally can't get these fashion brands to carry, didn't mention the two top-selling athletic shoe brands when asked to name their top brands in either sporting goods or apparel.

Reflecting a resurgence of Nike's position in the marketplace, it came in at No. 5 with a 6.1 percent rating among all shoppers. That was over twice as strong as Reebok, which was tied with Rawling at 2.5 percent.

Huffy slipped to No. 18 among consumers, compared to No. 5 among managers, and Igloo, which was No. 10 on the managers list was only No. 20 among consumers.

About 63 percent of discount shoppers overall reported a brand preference when buying sporting goods. That figure was lower than with automotives shoppers, 78 percent of whom expressed a brand preference, but higher than hardware, 55 percent.

If shoppers couldn't find the sporting goods brand they wanted, 47 percent said they would switch brands, while 53 percent said they would skip purchasing the item they had in mind. Only 7 percent expressed a preference for a private label in sporting goods.

Consumers also said they had less confidence in being able to find their favorite brand of sporting goods at discount stores, compared to other hard lines categories. Only 35 percent said they were "certain" of finding their top brand of sporting goods.

Consumer Brand Preferences In Sporting Goods

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Wilson	19.3%	20.9%	12.5%	22.3%	15.9%
Spalding	13.6	12.8	10.0	18.3	14.0
Zebco	8.6	9.1	17.4	10.0	9.8
Coleman	6.3	6.6	4.3	8.0	9.4
Nike	6.1	6.7	6.3	5.6	4.1
Remington	6.0	5.4	13.5	5.1	2.3
MacGregor	5.9	7.0	6.3	6.6	6.1
Garcia	3.3	3.5	6.3	3.8	2.2
Daiwa	2.9	2.9	2.4	2.8	3.4

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Sporting Goods Brands: Store Managers vs. Shoppers

Managers	Consumers
Wilson	Wilson
Coleman	Spalding
Spalding	Zebco
Zebco	Coleman
Huffy	Nike
MacGregor	Remington
Garcia	MacGregor
Remington	Garcia
Daiwa	Daiwa

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/ Leo J. Shapiro & Assoc.

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Stationery Products Attract Comparison Shoppers

Nationwide DSN Report

Stationery shoppers are not particularly brand-conscious and are likely to switch brands if their preferred brand is not available in the store, according to an exclusive study of consumer brand preferences, conducted by Leo J. Shapiro & Associates for *DSN*.

Sixty-seven percent of those who expressed a brand preference in the stationery department said they would switch brands rather than forgo the purchase. That figure was the highest of 17 categories covered by the survey.

On a scale of 1 to 9, with 9 meaning that consumers were "certain" of finding their preferred brand, shoppers gave the stationery and cards category a mean rating of 7.18. Only four other departments—consumer electronics, sporting goods, women's apparel and men's apparel—had lower confidence ratings than stationery.

That low confidence level does not translate to lost sales, since two-thirds of the consumers surveyed would rather select another brand than skip the purchase entirely.

Hallmark, for instance, was mentioned by the greatest number of consumers as their preferred brand in the department. However, Hallmark is not usually available through discount store outlets, which contributes to the low confidence rating the department garners from consumers.

However, other greeting card brands like American Greetings and Ambassador, which are available through mass merchandisers, also made the top 10 list, and consumers seem more than willing to switch to other brands.

For discounters, the drawback in this department is that because shoppers are so willing to switch brands, they have a tendency to shop price, which puts downward pressure on margins. Brand names don't generate the same level of loyalty in this category as they do in other departments.

Significantly, while shoppers may be fairly ambivalent toward which brand they buy, they do certainly prefer national name brands over private label merchandise. Only 9.4 percent named a private or store label brand as their preferred choice in the stationery department.

Top Stationery Brands: Store Managers vs. Shoppers

Managers	Consumers
Mead	Hallmark
Bic	American Greetings
Papermate	Bic
Crayola	Mead
American Greetings	Ambassador
Parker	Scotch
Stuart Hall	Sangamon
Scripto	Gibson
Hirlitz	Crayola
Scotch	Papermate

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)?' and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?'

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumer Brand Preferences In Stationery Department

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Hallmark	61.7%	61.7%	58.1%	58.6%	60.0%
American Greetings	16.0	16.0	15.2	18.8	21.1
Bic	4.8	4.4	5.2	2.8	4.3
Mead	4.7	4.8	5.7	8.4	3.9
Ambassador	1.8	1.9	3.4	—	5.3
Scotch	1.5	1.5	—	0.9	2.2
Sangamon	1.5	0.4	4.9	1.0	—
Gibson	1.1	1.0	0.9	0.9	—
Crayola	0.8	1.0	—	1.9	—
Papermate	0.7	0.9	—	—	1.3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Name Brands Clean Up Among H&BA Consumers

Nationwide DSN Report

Discount shoppers in search of health and beauty aids and other toiletries overwhelmingly prefer name brands such as Crest and Colgate over private or store label products.

A whopping 93 percent of consumers surveyed named a national brand as their preferred choice when purchasing toiletries or health and beauty aids. This level of brand loyalty was the third highest among the 17 categories covered in an exclusive survey conducted for *DSN* by Chicago-based Leo J. Shapiro & Associates.

The survey asked consumers who had shopped in a discount store at least three times during the last year to name their brand preferences.

In a category in which 65 different brands received at least some mention from consumers as their preferred choice, Crest was named by 11.5 percent of the respondents. Slightly more than 9 percent preferred runner-up Colgate in this category.

Consumers and discount store managers appear to be on the same wavelength, at least in how they view the top two brands. Asked to name their best performing products in health and beauty aids, store managers also named Crest and Colgate most often among their top performers (see *DSN*, Oct. 10).

After the top two H&BA brands, consumers and store managers rated the leaders somewhat differently. Lever Bros., including the brand names Ivory and Dove, receive the third-highest number of mentions in the category with 8.9 percent of mentions. Lever was followed by Revlon (which was also a top 10 brand in the cosmetics category, see story, page 44), Clairol, Kleenex, Charmin, Mennen, Johnson & Johnson, and Suave.

In the poll of discount store managers, however, Listerine placed third, followed by Johnson & Johnson, Scope, Revlon, Clairol, Right Guard, Aqua Net and Lever Bros.

Of the 17 categories surveyed, H&BA received the highest mean rating in terms of "confidence of finding the brand I want" from consumers with a 7.99 on a scale of 1 to 9 (with 9 meaning they were "certain" of finding their preferred brand).

About 54 percent of those surveyed were "certain" they would find their preferred product, while another 35.3 percent were "sure" their shopping need would be met. Only 8 percent said they were "not sure" they would be able to find their preferred brand at the discount store.

In the survey, over 48 percent said they would switch to another brand if their preferred brand was not in stock at the store. The remaining 51.7 percent would skip the purchase. This degree of brand loyalty was in the middle ground among the 17 categories surveyed.

Private label products are seldom the first choice of consumers who are looking to purchase health and beauty aids. Only 6.9 percent of those surveyed named a private label or store brand as their preferred choice in the category.

Consumer Brand Preference In Health & Beauty Aids

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Crest	11.5%	11.0%	10.0%	10.5%	15.6%
Colgate	9.2	9.7	12.0	11.4	8.2
Lever Bros./ Ivory/Dove	8.9	8.0	8.0	12.4	8.2
Revlon	6.0	6.3	6.0	3.8	8.2
Clairol	4.6	4.0	3.0	2.9	5.7
Kleenex	4.3	4.7	6.0	1.9	5.7
Charmin	4.0	3.7	6.0	3.8	4.9
Mennen	3.4	3.7	2.0	1.9	4.1
Johnson & Johnson	3.2	3.7	3.0	1.9	2.5
Suave	3.2	3.3	3.0	3.8	2.5

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Health & Beauty Aids Brands: Store Managers vs. Shoppers

Managers	Consumers
Crest	Crest
Colgate	Colgate
Listerine	Lever Bros./Ivory/Dove
Johnson & Johnson	Revlon
Scope	Clairol
Revlon	Kleenex
Clairol	Charmin
Right Guard	Mennen
Aqua Net	Johnson & Johnson
Lever Bros.	Suave

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)?' and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?'

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

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Price Looks to Pad Property Portfolio

(Continued from page 2)

projects being generated internally.

At the Burbank site, P&K plans to develop a two-level retail center that would include a 120,000-square-foot Price Club membership warehouse, a home center, several off-price apparel chains, a movie theater complex, restaurants, a hotel and a community center. Total leasable square footage would be 708,700 square feet.

P&K's proposed development, called the Burbank Promenade, is one of six under consideration by the city's redevelopment agency.

In its proposal, P&K said the Promenade would have a festival marketplace ambience similar to Faneuil Hall in Boston, combined with a regional shopping flavor resembling the Potomac Mills complex in Washington, D.C.

P&K has already lined up several retailers interested in the project, with the list including off-pricers Nordstrom Rack, Marshalls and T.J. Maxx, along with home furnishings retailer Home Express and home center operator Home Depot. P&K also anticipates that its project would draw either a Toys "R" Us or a SportMart.

The Price Club warehouse would be the chain's second in Burbank. The company pegged anticipated first full-year sales at between $120 million and $150 million. For the entire development, P&K expects the proposed Promenade to generate sales of between $273.5 million and $365.7 million.

A final decision by the city for the Burbank development is not due for several months. If chosen, P&K said it would take between two and three years to build the Promenade.

Meanwhile, Price Club's bid for additional real estate, through the purchase of grocery wholesaler Alfred M. Lewis, has been revised. Following closer review of Lewis, Price Club has downgraded its offer from $40 a share or a total price of $52 million, to $37 share or a total price of $48.1 million.

Price Club said it has begun a tender offer and upon receiving at least 70 percent of Lewis' outstanding shares, along with regulatory approval, the acquired company will be merged with a Price Club subsidiary. The deal would give the company five large warehouse/distribution centers in California, Nevada and Arizona—ranging from 171,000 to 483,000 square feet. The chain would also take over 35 small cash and carry wholesale food distribution outlets.

If the deal collapses, Price Club still has an option to buy some of Lewis' property.

Court to OK CVN Takeover of TFC

(Continued from page 4)

personnel, merchandise or facilities. It has hired a few TFC hosts and is now airing an 8-hour live and 16-hour taped show on The Fashion Channel's network of 600 cable stations, reaching about 10 million households.

As for CVN Cos.' other diversification drive, it has named Jo J. Abendroth vice president for new business development, and William J. O'Neill vp in charge of direct marketing operations. Both positions are newly created posts.

The five firms CVN Cos. has hired and their missions are:

- Frank N. Magid Associates, a Marion, Iowa, media research and consulting firm. It will probe strategic marketing questions and conduct market research.
- Ruhr/Paragon Advertising, a Minneapolis advertising agency. It will develop a multimedia ad campaign that will debut this fall.
- Robert H. Meyer & Associates, a Minneapolis sales promotion agency. It will mount several promotions during the year, including a Fall Lineup Promotion to spotlight CVN's new fall shows.
- National Demographics & Lifestyles, a Denver demographic and lifestyle research firm. It will provide consumer research support.
- Tarkenton & Addams, an Atlanta public relations agency. It will provide corporate communications and media relations support.

Abendroth, as vp for new business development, will focus on such new business opportunities as development of:

- Financial service for distribution through the company's television and direct marketing operations;
- New applications for the Cable Value Network teleshopping and C.O.M.B. closeout direct mail distribution systems;
- Marketing opportunities using multimedia vehicles like the video retailing program and direct mail catalogs to the shows' viewers;
- Business alliances with, and possible acquisition of, other companies.

Abendroth reports directly to Theodore Deikel, CVN Cos. chairman and chief executive officer. She was formerly the chief operating officer and a general securities principal for Norman H. Gershman Associates, a securities firm.

As vp in charge of direct marketing operations, O'Neill will "will help expand both our print and televisions operations," Deikel said.

O'Neill reports to George L. Walters, CVN Cos. executive vp for marketing. He is a former senior executive of the Reader's Digest Association, most recently serving as vp and director of international operations.

Deikel said, "CVN has the ability to reach many more cable TV subscribers." Retaining the five marketing and advertising agencies is a step "to translate that potential into reality."

There are about 90 million TV households in the country. Approximately 44 million of those households subscribe to cable TV. CVN reaches about 20 million cable viewers, about 2 million of whom are active CVN shoppers.

Costco Adds Bakery, Fresh Meats

(Continued from page 3)

ries in both large and small markets in highly competitive and less competitive regions, in addition to utilizing various layouts within the warehouses.

While the scratch bakery products do not overlap with Costco's regular selection of baked goods, there is some duplication in meats.

However, Brotman said customers' needs usually dictate whether they will buy frozen or fresh meats, and there is really little competition between the two. Additionally, the fresh meats come in prime and choice cuts, whereas the frozen meats may only be available in the choice cut, Brotman added.

In keeping with the warehouse club industry norm, both the scratch baked goods and fresh meats are offered as multiple-item packages or large cuts. For example, boneless beef top loin is sold as a single 9-pound piece of meat for just over $40, while smaller cuts of products like chops are cut in individual portions, but sold in multiple quantities.

Brotman said the meat is butchered early each day, and the amount prepared is based on estimated daily sales. While Brotman said a loss potential exists with freshly prepared products, the potential for loss is taken into account in the margins. He said Costco's prices on these categories are still lower than those at a typical wholesaler.

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